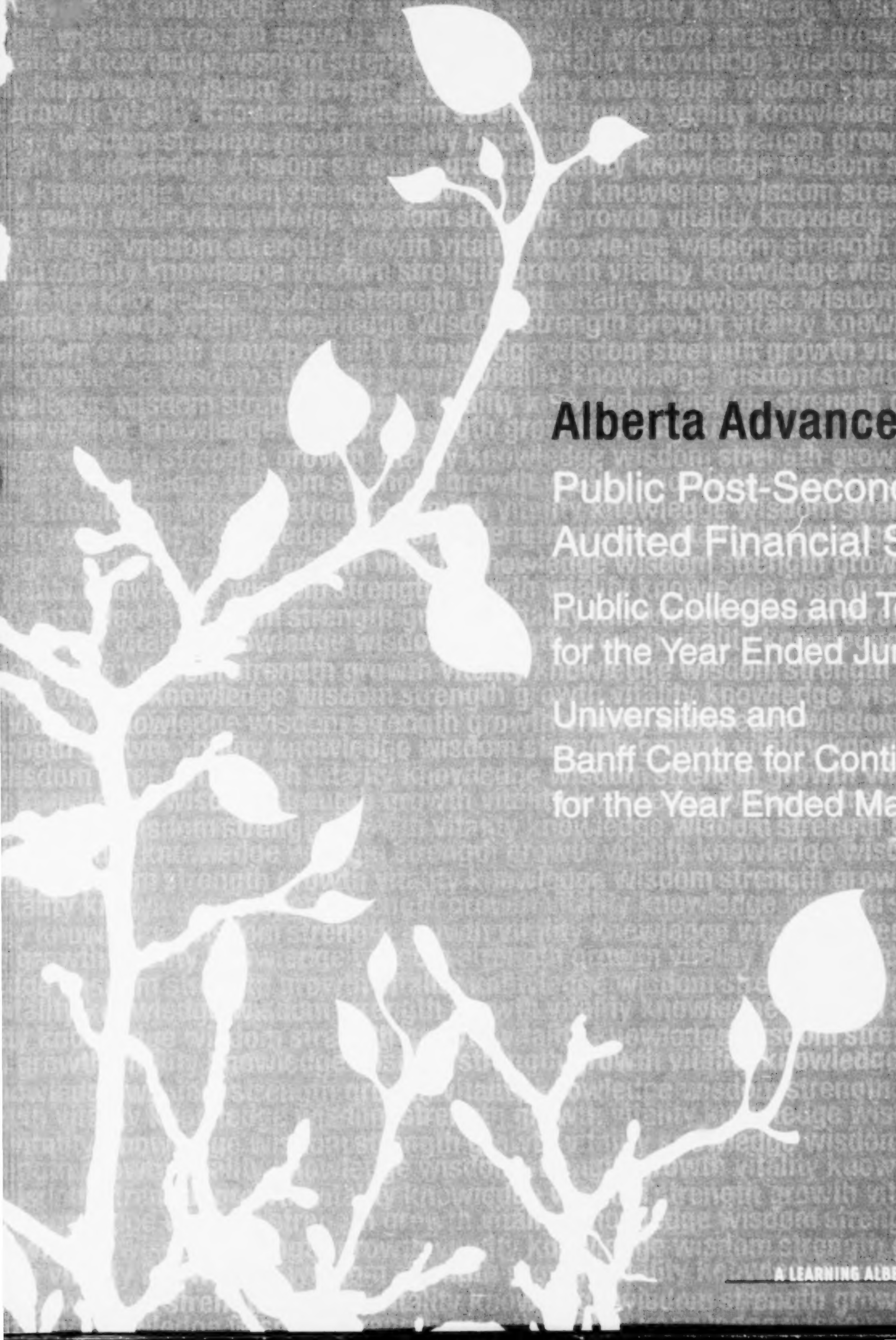

Alberta Advanced Education

Public Post-Secondary Institutions Audited Financial Statements

Public Colleges and Technical Institutes
for the Year Ended June 30, 2005

Universities and
Banff Centre for Continuing Education
for the Year Ended March 31, 2006

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ALBERTA COLLEGE OF ART AND DESIGN

FINANCIAL STATEMENTS

JUNE 30, 2005

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Statement of Operations

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AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Alberta College of Art and Design

I have audited the statement of financial position of the Alberta College of Art and Design as at June 30, 2005 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
October 7, 2005

ALBERTA COLLEGE OF ART AND DESIGN
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2005

	2005	2004
ASSETS		
Current:		
Cash and cash equivalents (Note 3)	$ 4 935 046	$ 4 182 670
Accounts receivable and prepaid expenses	240 626	202 427
Inventories	547 983	533 921
	5 723 655	4 919 018
Non-current:		
Cash and investments (Note 3)	2 779 878	2 975 991
Capital contributions receivable (Note 17)	746 182	612 181
Capital assets (Note 5)	5 857 499	6 525 018
	$ 15 107 214	$ 15 032 208
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable	$ 280 246	$ 323 180
Unearned tuition fees	195 041	190 556
Deferred contributions (Note 7)	1 588 963	943 372
Accrued vacation	672 984	712 614
Accrued benefits (Note 14)	245 048	193 568
	2 982 282	2 363 290
Non-current:		
Accrued benefits (Note 14)	95 204	97 936
Unamortized deferred capital contributions (Note 8)	5 320 283	6 075 666
Deferred capital contributions (Note 7)	1 274 439	1 387 751
	9 672 208	9 924 643
Net assets:		
Unrestricted	1 403 546	1 434 657
Internally restricted (Note 9)	1 652 623	1 433 134
Invested in capital assets	537 216	449 352
	3 593 385	3 317 143
Endowments (Note 10)	1 841 621	1 790 422
	5 435 006	5 107 565
	$ 15 107 214	$ 15 032 208

The accompanying notes are part of these financial statements

ALBERTA COLLEGE OF ART AND DESIGN
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2005

	2005		2004
	Budget (Note 15)	Actual	Actual
Revenue:			
Grants (Note 11)	$ 8 349 288	$ 8 776 770	$ 8 641 185
Tuition fees	4 184 882	3 963 976	3 544 417
Continuing education fees	1 031 202	826 820	903 409
Bookstore sales	751 000	759 027	780 021
Sales, rentals and services	150 000	144 566	158 304
Donations, gifts in kind and fundraising events	606 950	880 138	204 660
Scholarships	205 000	83 152	81 580
Investment income (Note 4)	292 000	194 057	212 798
Earned capital contributions (Note 8)	785 000	764 603	762 076
	16 355 322	16 393 109	15 288 450
Expense (Note 12):			
Salaries, benefits and allowances (Note 13)	10 119 504	10 014 291	9 111 307
Supplies and services	4 158 365	3 714 941	3 510 537
Bookstore - cost of sales	456 000	453 253	443 593
Fundraising projects	426 700	857 366	278 846
Scholarships	97 328	126 976	141 043
Loss on disposal of capital assets	-	3 849	3 125
Amortization of capital assets	910 000	946 191	938 131
	16 167 897	16 116 867	14 426 582
Excess of revenue over expense, for the year	$ 187 425	$ 276 242	$ 861 868

The accompanying notes are part of these financial statements

ALBERTA COLLEGE OF ART AND DESIGN
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	2005						2004
	Unrestricted Net Assets	Internally Restricted Net Assets (Note 9)	Investment in Capital Assets	Total Operating Net Assets	Endowments (Note 10)	Total Net Assets	Total Net Assets
Excess of revenue over expense	$ 276 242	$ -	$ -	$ 276 242	$ -	$ 276 242	$ 861 868
Transfer to internally restricted, net (Note 9)	(219 489)	219 489	-	-	-	-	-
Endowment contributions and capitalized interest (Note 10)	-	-	-	-	51 199	51 199	48 130
Transferred to deferred contributions (Note 10)	-	-	-	-	-	-	(49 269)
Internally funded:							
Purchase of capital assets	(266 300)	-	266 300	-	-	-	-
Amortization of capital assets	184 160	-	(184 160)	-	-	-	-
Net book value of capital asset disposals	1 431	-	(1 431)	-	-	-	-
Donated artwork	(7 155)	-	7 155	-	-	-	-
Increase (decrease) in net assets	(31 111)	219 489	87 864	276 242	51 199	327 441	860 729
Balance, beginning of year	1 434 657	1 433 134	449 352	3 317 143	1 790 422	5 107 565	4 246 836
Balance, end of year	$ 1 403 546	$ 1 652 623	$ 537 216	$ 3 593 385	$ 1 841 621	$ 5 435 006	$ 5 107 565

The accompanying notes are part of these financial statements

ALBERTA COLLEGE OF ART AND DESIGN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Operating activities:		
Excess of revenue over expense	$ 276 242	$ 861 868
Non-cash transactions:		
Earned capital contributions (Note 8)	(764 603)	(762 076)
Amortization of capital assets	946 191	938 131
Loss on disposal of capital assets	3 849	3 125
	461 679	1 041 048
Changes in non-cash working capital (Note 16)	566 731	39 775
Cash generated from operating activities	1 028 410	1 080 823
Investing activities:		
Purchase of capital assets:		
Internally funded	(266 300)	(115 276)
Externally funded	(9 220)	(180 857)
Donated artwork	(7 155)	-
Proceeds on disposal of capital assets	154	516
Decrease (increase) in non-current cash and investments	196 113	(133 082)
(Decrease) increase in accrued benefits	(2 732)	14 983
Cash used in investing activities	(89 140)	(413 716)
Financing activities:		
Increase in capital contributions receivable	(134 001)	(2 474)
Capital contributions received, net of transfers	(104 092)	167 554
Increase (decrease) in endowments, net	51 199	(1 139)
Cash (used in) provided from financing activities	(186 894)	163 941
Net increase in cash and cash equivalents	752 376	831 048
Cash and cash equivalents, beginning of year	4 182 670	3 351 622
Cash and cash equivalents, end of year	$ 4 935 046	$ 4 182 670

The accompanying notes are part of these financial statements

Note 1 Authority and Purpose

The Alberta College of Art and Design ("the College") operates under the authority of the Post Secondary Learning Act, Statutes of Alberta 2003, Chapter P-19.5. The College is a registered charity and is exempt from payment of income tax.

The College is a public institution for education in visual arts, design and digital media, that delivers both post-secondary degree and diploma programs, and adult and children's continuing education programming.

The College promotes cultural and artistic awareness in the College and the community through art exhibitions, public lecture programs and its collection of visual art and library resources.

Note 2 Summary of Significant Accounting Policies

a) General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates which may vary from actual results. The following accounting policies and reporting practices are considered significant.

b) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at the lower of cost and replacement value. Cost is determined using the first in, first out method.

c) Investments

Investments are recorded at cost. Gains are recognized at realization. Losses are recognized at realization or when there is an other than temporary decline in the value of an investment.

Note 2 Summary of Significant Accounting Policies (continued)

d) Capital Assets

The land and building which house the College are owned by the Southern Alberta Institute of Technology (the "Institute") and are occupied by the College under a facility license granted by the Institute. The term of the license is through a renewable contractual agreement between the College and the Institute determined at the pleasure of the Minister of Advanced Education.

The facility license providing the right to use the building has been recorded as an asset at fair value at the time the license was granted. Fair value is estimated as the building's amortized replacement cost based on an independent appraisal as at April 1982.

Subsequent additions to the facility are recorded as leasehold improvements at cost.

Furnishings and equipment are recorded at cost, except for donated assets which are recorded at fair value.

Capital assets, except for the artwork collection, are amortized on a straight-line basis over the following periods:

Facility license	28 years
Leasehold improvements	remaining life of the building
Furniture and equipment	5 years
Computer Systems	10 years

The artwork collection is made up of numerous pieces of art that are held for display in the College and used for educational purposes. The pieces in the collection are recorded at the purchase price or at the appraised value at the time of donation and are not amortized.

e) Revenue Recognition

Unrestricted contributions and investment income are recognized in the period when receivable.

Amounts received for fees and sale of goods and services are recognized as revenue at the time the goods are delivered or the services are provided.

Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Note 2 Summary of Significant Accounting Policies (continued)

e) Revenue Recognition (continued)

Externally restricted non-capital contributions and interest are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by the contributor.

Externally restricted contributions containing stipulations that the amounts should be retained as net assets or that the contributions should not be expended are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property.

Externally restricted capital contributions and interest are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing externally funded capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded.

f) Employee Future Benefits

The College participates with other employers in the Local Authorities Pension Plan (the "Pension Plan"). This Pension Plan is a multi-employer defined benefit pension plan that provides pensions for the College's participating employees based on their years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year based on rates which are expected to provide for benefits payable under the Local Authorities Pension Plan. The College's portion of the pension plan's surplus or deficit is not recorded by the College.

The College's Board of Governors has approved early retirement and voluntary severance plans which provide employees leaving the employment of the College under specific conditions with bridge payments, lump sum payments in lieu of benefits or continued benefits for specific periods. The bridge payments, lump sum benefit payments and liabilities for future benefit payments are recorded by the College in the year the retirement application is approved.

Note 2 Summary of Significant Accounting Policies (continued)

f) Employee Future Benefits (continued)

The College pays or shares the premiums for certain benefits for employees on long term disability. The present value of the estimated costs of these premiums are recorded at the time the College becomes obligated under the plan.

g) Financial Instruments

The carrying value of cash, receivables and payables are considered to approximate fair value unless otherwise disclosed.

h) Credit, Interest Rate and Market Risk

The College's accounts receivable are due from a diverse group of customers and are subject to normal credit risks.

Interest rate risk is the risk to the College's earnings that arises from the fluctuations in interest rates and the degree of volatility of these rates.

Market risk is the risk to the College's earnings that arises from the fluctuations and degree of volatility in the market value of its long-term investments.

Note 3 Cash, Cash Equivalents and Investments, Current and Non-Current

The Board of Governors, through its Finance Committee monitors the performance of the investment portfolio. Under the investment policy, the prime objectives of the investment fund are the generation of income, conservation of capital and growth of capital. The prime constraints that guide the investment policy are risk aversion and liquidity.

Realized return includes interest income and gains and losses on disposals of investments. In 2005, the cash, cash equivalents and investments obtained a realized return of 3.05% (2004 – 3.49%).

Investments are currently held as money market, bond and equity pooled funds managed through an investment advisor. Cash, cash equivalents and investments are summarized as follows:

	2005		2004	
	Cost	Market	Cost	Market
Cash	$ 5 075 347	$ 5 075 347	$ 4 693 154	$ 4 693 154
Pooled funds:				
Accrued income	36 718	36 718	38 363	38 363
Bond fund	963 436	1 067 554	926 389	972 066
Pooled equity account	1 639 423	1 816 884	1 500 755	1 616 729
Total cash and investments	7 714 924	$ 7 996 503	7 158 661	$ 7 320 312
Held as non-current assets	2 779 878		2 975 991	
Held as current assets	$ 4 935 046		$ 4 182 670	

Note 3 Cash, Cash Equivalents and Investments, Current and Non-Current (continued)

The Bond Fund consists of Canadian government and corporate bonds with an average term to maturity of 8.6 years and an average yield to maturity of 3.71% (2004 – 4.56%). Bonds are rated at a minimum level of BBB with 56% of the Fund rated as AAA.

Bond maturities are as follows:

	2005	2004
Under 1 year	2 %	9 %
1-5 years	48	44
5-10 years	26	24
10-20 years	2	-
Over 20 years	22	23
	100 %	100 %

Bonds are outstanding by the following types of issuers:

	2005	2004
Federal	47 %	47 %
Provincial	17	15
Municipal	6	7
Corporate	30	31
	100 %	100 %

The Pooled Equity Account is a balanced fund of bond and equity investments. During 2005 the Pooled Equity Fund earned 2.67% (2004 – 2.84%).

The Pooled Equity Account held the following types of investments:

	2005	2004
Canadian Short and Long-term bonds	37 %	39 %
Canadian Equities	35	31
United States Equities	12	15
International Equities	16	15
	100 %	100 %

Note 3 Cash, Cash Equivalents and Investments, Current and Non-Current (continued)

Cash and investments held as non-current represent funds not available for current operations and comprise endowments and deferred capital contributions restricted for the purchases of capital assets as follows:

	2005	2004
Endowments (Note 10)	$ 1 841 621	$ 1 790 422
Deferred capital contributions	528 257	775 569
Internally restricted for capital (Note 9)	410 000	410 000
	$ 2 779 878	$ 2 975 991

Note 4 Investment Income

	2005	2004
Investment income on resources held for endowment (Note 10)	$ 134 389	$ 61 099
Investment income on unrestricted resources	139 643	124 607
Total investment income	274 032	185 706
Amounts credited to endowment principal (Note 10)	(33 597)	(15 275)
Interest deferred in the period (Note 10)	(46 378)	-
Interest deferred in the prior year recognized (Note 10)	-	42 367
	$ 194 057	$ 212 798

Note 5 Capital Assets

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Facility license	$ 12 207 000	$ 8 719 471	$ 3 487 529	$ 3 923 471
Furniture and equipment	3 823 520	3 307 732	515 788	470 957
Leasehold improvements	3 027 936	1 581 891	1 446 045	1 675 911
Computer systems	566 079	521 539	44 540	98 237
Art collection	363 597	-	363 597	356 442
	$ 19 988 132	$ 14 130 633	$ 5 857 499	$ 6 525 018

During the year, the College received donated assets of $7,155 (2004 - $142,128).

Note 6 Lease Commitment

As at June 30, 2005 the Alberta College of Art and Design had total lease commitments in the amount of $15,028 (2004 - $31,751)

The College leases office equipment under operating leases that expire on various dates to 2009. The aggregate amounts payable for the unexpired terms of the leases are as follows:

2006	$ 7 824
2007	3 202
2008	3 202
2009	800
	$15 028

Note 7 Deferred Contributions and Deferred Capital Contributions

	2005	2004
Contributions received during the year:		
Capital grants	$ 161 000	$ 335 699
Capital donations	-	142 128
Donations - gifts in kind	642 891	74 691
Donations - scholarships	293 385	142 325
Non-capital grants	929 834	520 171
Non-capital donations	332 284	192 023
Restricted investment income	134 389	61 099
	2 493 783	1 468 136
Transferred to revenue:		
Grants	(926 098)	(768 509)
Donations, gifts in kind and fundraising events	(855 023)	(204 661)
Scholarships	(83 152)	(81 580)
Investment income	(54 414)	(88 191)
	(1 918 687)	(1 142 941)
Transferred to:		
Unamortized deferred capital contributions (Note 8)	(9 220)	(180 857)
Endowments (Note 10)	(33 597)	(15 275)
	(42 817)	(196 132)
Increase during the year	532 279	129 063
Balance, at beginning of year	2 331 123	2 202 060
Balance, end of year	$ 2 863 402	$ 2 331 123
The balance is restricted for:		
Capital	$ 1 274 439	$ 1 387 751
Non-capital		
HRDC, Province of Alberta and conditional grants	686 709	417 881
Scholarships	593 120	337 108
Other	309 134	188 383
	1 588 963	943 372
	$ 2 863 402	$ 2 331 123

Note 8 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the externally funded portion of capital assets, which will be recognized as earned capital contributions in future periods. Changes in the unamortized deferred capital contributions balance are as follows:

	2005	2004
Balance at beginning of year	$ 6 075 666	$ 6 656 885
Add: transfers from deferred contributions (Note 7)	9 220	180 857
Less: earned capital contributions	(764 603)	(762 076)
Balance at end of year	$ 5 320 283	$ 6 075 666

Note 9 Internally Restricted Net Assets

The Board of Governors has placed internal restrictions on operating net assets as follows:

	2005			
	Opening	Expended	Appropriations	Closing
Non capital:				
Human resource infrastructure	$ 300 000	$ -	$ -	$ 300 000
Marketing, recruitment and promotion	51 410	7 491	-	43 919
Utilities	93 000	-	-	93 000
Health and safety program	50 000	-	-	50 000
Accreditation (AUCC, NASAD)	100 000	-	-	100 000
Website development and maintenance	28 724	-	-	28 724
Community relations	150 000	-	-	150 000
Special initiatives	100 000	-	-	100 000
College expansion initiative	150 000	23 020	-	126 980
Centre for creative process	-	-	150 000	150 000
Institutional branding	-	-	50 000	50 000
Internationalization	-	-	50 000	50 000
	1 023 134	30 511	250 000	1 242 623
Capital:				
Equipment renewal plan	350 000	-	-	350 000
Administrative system applications	60 000	-	-	60 000
	410 000	-	-	410 000
	$1 433 134	$ 30 511	$ 250 000	$1 652 623

Note 10 Endowments

Endowments consist of restricted donations to the College and internal allocations by the Board of Governors, the principal of which is not to be spent. The investment earnings generated from the endowments must be used in accordance with the various purposes established by the donors or the Board.

	2005	2004
Balance at beginning of year	$ 1 790 422	$ 1 791 561
Donations received	17 602	32 855
Capitalize investment income (Note 4)	33 597	15 275
Transfer to deferred contributions	-	(49 269)
	51 199	(1 139)
Balance at end of year	$ 1 841 621	$ 1 790 422

Endowments comprise:

	2005	2004
External endowments	$ 1 334 439	$ 1 295 517
Internal endowments	507 182	494 905
	$ 1 841 621	$ 1 790 422

During the year, investment income earned on endowments was recorded according to stipulations as follows:

	2005	2004
Income earned during the year (Note 4)	$ 134 389	$ 61 099
Recognized as revenue	$ 54 414	$ 88 191
Capitalized as endowment principal (Note 4)	33 597	15 275
Interest deferred in the period (Note 4)	46 378	-
(Prior year deferred recognized) deferred, net	-	(42 367)
	$ 134 389	$ 61 099

Note 11 Grants

	2005	2004
Province of Alberta:		
Base operating	$ 8 072 352	$ 7 135 477
Access funding	145 646	691 580
Energy and enrolment grants	57 997	68 439
Community Lottery Board	903	27 775
Infrastructure renewal	271 127	253 593
Operating & maintenance grant	-	213 452
Campus plan	1 391	-
Faculty/staff retention grant	16 228	127 895
AHRE disability training grants	-	549
Performance funding	88 796	37 257
Curriculum funding	15 494	-
Alberta Foundation for the Arts	-	21 116
Art in motion	7 041	3 509
Retail store feasability study	-	5 000
ACAD student association	-	10 000
AHRE step/learning & resource centre grants	18 416	-
Human resources grants	34	1 680
Other	1 954	21 756
Total Provincial Grants	8 697 379	8 619 078
Other:		
Canada Council	-	1 150
Indirect cost program	34 903	13 898
SSHRC	44 488	7 059
	$ 8 776 770	$ 8 641 185

Note 12 Expense by Function

	2005	2004
Expense:		
Instruction	$ 6 174 033	$ 5 934 751
Institutional support	4 329 278	3 556 483
Academic support	2 655 006	2 296 460
Amortization of capital assets	946 191	938 131
Student services	987 838	742 605
Bookstore	729 045	708 493
Minor capital projects	291 627	246 534
Loss on disposal of capital assets	3 849	3 125
	$ 16 116 867	$ 14 426 582

Instruction encompasses all educational and instructional programs, including credit programming and continuing education. Academic support includes all activities that directly support instruction, including Library, Woodshop, Gallery and Academic Administration. Student services includes all activities or services provided to students.

Institutional support includes all activities that provide institution-wide administrative and clerical support to institutional operations as well as college fundraising, communications and development expense. A significant component of fundraising and development expenses is an annual major fundraising event, the total cost of which is included in institutional support costs.

Bookstore includes cost of sales and direct bookstore operations costs. Direct salary costs incurred for the College bookstore include support for college wide purchase, receipt and distribution of all materials for instructional, operational and retail purposes.

Note 13 Salaries, Benefits and Allowances

Directive 12/98 (amended July 6, 2004) from the Treasury Board of the Province of Alberta requires the College to disclose certain salaries and benefits. Those salaries and benefits are as follows:

	2005				2004
	Base Salary (1)	Other Cash Benefits (2)	Other Non-cash Benefits (3)	Total	Total
Board of Governors					
Chair	$ -	$ -	$ -	$ -	$ -
Board Members (8)	-	457	-	457	2 562
President (4)	148 800	23 650	22 765	195 215	228 661
Vice President Academic (5)	55 000	1 200	8 822	65 022	-
Chief Operating Officer (6)	137 249	14 983	17 068	169 300	137 580
Vice President External Affairs	92 929	7 699	16 117	116 745	99 898
Director Student Services (7)	92 614	-	16 033	108 647	100 856
	$ 526 592	$ 47 989	$ 80 805	$ 655 386	$ 569 557

1. Base Salary includes pensionable base pay.
2. Other cash benefits include honoraria, housing allowance, vehicle allowance and partial payout of accrued vacation leave.
3. Benefits and allowances include the employer's share of all employee benefits and contributions or payments made on behalf of employees including Local Authorities Pension, employment insurance, health care, extended health, vision and dental coverage, group life insurance, accidental disability and dismemberment and workers' compensation.
4. The President commenced employment at the College on August 5, 2004. Other cash benefits include housing allowance, vehicle allowance and payments to an executive supplemental pension account for the President.
5. The Vice President, Academic commenced employment at the College on January 4, 2005. The position was vacant during the period July 1, 2004 to December 31, 2004 and during the 2003-2004 fiscal year.
6. Base salary of the Chief Operating Officer includes a supplement for duties performed in the President position which was vacant from November 1, 2003 to August 4, 2004.
7. Base salary of the Director Student Services includes a supplement for duties performed in support of the vacant Senior Academic Officer position and the Academic Executive during the period July 1, 2004 to December 31, 2004.
8. The majority of College board members do not accept honoraria from the College. The value of the honoraria not accepted is allocated to special funds shown in the financial statements as deferred contributions.

Note 14 Employee Future Benefits

The College Board of Governors has provided provisions for early retirement plans for College employees. The College also supplements the pension benefits earned by the president through contributions to a supplementary plan. The College is also required, under the terms of its long-term disability plan, to continue payment of the employer's portion of health benefits and LAPP pension premiums while an employee is on long-term disability. The College's liability under these plans included in the 2005 financial statements is $340,252 (2004 - $291,504).

The college participates in a multiemployer pension plan, the Local Authorities Pension Plan (LAPP). The expense for this plan is $463,310 for the year ended June 30, 2005 (2004 - $360,955).

At December 31, 2004, the Local Authorities Pension Plan reported a deficiency of ($1,288,924,000) (2003 – $1,453,487,000). Effective January 1, 2004, the employers' contribution rates were increased by 1.077%. Rates were increased further January 1, 2005 by 1%.

Note 15 Budget

The budget was approved by the Board of Governors in May 2004 and the revised budget was approved February 2005.

	Original Budget	Revised Budget
Revenue:		
Grants	$ 8 355 647	$ 8 349 288
Tuition fees	3 778 093	4 184 882
Continuing education fees	995 355	1 031 202
Bookstore sales	751 000	751 000
Sales, rentals and services	150 000	150 000
Donations, gifts in kind and fundraising	668 741	606 950
Scholarships	205 000	205 000
Investment income	196 479	292 000
Earned capital contributions	780 000	785 000
	15 880 315	16 355 322
Expense:		
Salaries, benefits and allowances	9 874 520	10 119 504
Supplies and services	4 017 577	4 158 365
Bookstore - cost of sales	456 000	456 000
Fundraising projects	488 491	426 700
Scholarships	97 328	97 328
Amortization of capital assets	962 000	910 000
	15 895 916	16 167 897
(Deficiency) excess of revenue over expense	$ (15 601)	$ 187 425

Note 16 Changes in Non-Cash Working Capital

	2005	2004
Increase in accounts receivable and prepaid expenses	$ (38 199)	$ (115 833)
(Increase) decrease in inventories	(14 062)	37 863
Decrease in accounts payable	(42 934)	(94 682)
Increase in deferred tuition fees	4 485	65 828
Increase in deferred contributions	645 591	142 366
Decrease in accrued vacation	(39 630)	(23 197)
Increase in accrued benefits	51 480	27 430
	$ 566 731	$ 39 775

Note 17 Related Party Transactions

a) Province of Alberta

The College is a Provincial Corporation as all members of the Board of Governors are appointed either by statute or by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions between the College and the Province are disclosed as follows:

	2005		2004	
	Revenue	Deferred Contributions and UDCC*	Revenue	Deferred Contributions and UDCC*
Operating grants	$ 8 072 352	$ -	$ 7 348 929	$ -
Access funding	55 045	349 315	626 400	249 361
Infrastructure renewal (IRE) grants	27 000	1 517 240	219 526	1 310 307
Campus Plan	1 391	198 609	-	-
Performance funding	88 796	-	37 257	-
Unfunded enrolment growth	57 997	105 551	68 439	68 441
Faculty/staff retention	-	16 228	-	144 123
AHRE LARC/disability training	18 416	-	549	-
Institutional reporting grant	-	-	-	21 756
Alberta Foundation for the Arts	-	-	21 116	-
Community Lottery Board	-	7 392	-	57 992
Other	1 954	53 589	18 509	160 589
Alberta Opportunity Bursary	-	5 936	-	5 936
Human Resources grants	-	3 720	1 680	3 720
Total from deferred contributions	374 428	(374 428)	276 673	(276 673)
	$ 8 697 379	$ 1 883 152	$ 8 619 078	$ 1 745 552

*Unamortized deferred contributions related to capital assets

b) Southern Alberta Institute of Technology

The land and building which house the College are owned by the Southern Alberta Institute of Technology (the "Institute") and are occupied by the College under a facility license granted by the Institute and continuing occupancy at the pleasure of the Minister of Advanced Education. The College and the Institute are parties to letters of agreement for the provision of utilities, maintenance and systems support. Amounts paid or payable to the Institute in 2005 for these purposes totalled $1,071,610 (2004 - $1,105,611).

Note 17 Related Party Transactions (continued)

The Institute received capital grants of $134,001 (2004 - $101,000) from the province that are designated for the building occupied by the College. In the current year no funds were expended (2004 - $98,526) for minor capital renovations to the building. The Institute still holds $746,182 (2004 - $612,181) of government grant funds that are to be used for the building envelope and utilities infrastructure. The amount has been recorded as a capital contribution receivable. These transactions were entered into on the same business terms as with non-related parties and are recorded at fair value.

c) Bow Valley College

The College and Bow Valley College collaborate in offering Artstream, a base funded program, which provides academic upgrading and foundation art courses to students in preparation for entry into the College's diploma or degree programs. Amounts paid to Bow Valley College in 2005 for these purposes totalled $2,130 (2004 - $43,118). These transactions were entered into on the same business terms as with non-related parties and are recorded at fair value.

d) Other

Transactions between the College and members of the Board are recorded at fair value.

Note 18 Contingent Liability

The College is a defendant in a legal proceeding, jointly with the Province of Alberta and other public sector employers, as a result of its participation as an employer member of the Local Authorities Pension Plan (LAPP). LAPP is a multi-employer defined benefit pension plan for employees of health authorities, municipalities, colleges and school boards. The validity and ultimate outcome of this proceeding cannot be predicted at this time, and therefore no provision for this proceeding has been made in the College's accounts. In the opinion of the College the resolution of this proceeding will not have a material effect on the financial position of the College, however, should any loss result from the resolution of this proceeding, such amounts would be expensed as the related amounts become known to the College.

Note 19 Approval of Financial Statements

These financial statements were approved by the Board of Governors at the October 27, 2005 meeting of the Board.

BOW VALLEY COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2005

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Bow Valley College

I have audited the statement of financial position of the Bow Valley College as at June 30, 2005 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn FCA
Auditor General

Edmonton, Alberta
September 30, 2005

BOW VALLEY COLLEGE

STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2005

	2005	2004
Assets		
Current:		
Cash and cash equivalents (Note 4)	$ 3,457,252	$ 3,300,700
Accounts receivable	2,114,288	2,262,672
Inventories (Note 5)	629,788	567,815
Prepaid expenses	137,851	102,688
	6,339,179	6,233,875
Non-current cash and cash equivalents (Note 4)	11,834,864	11,508,053
Capital assets (Note 7)	21,711,212	22,149,693
	$39,885,255	$39,891,621
Liabilities and Net Assets		
Current:		
Accrued vacation pay	$ 1,724,841	$ 1,675,826
Accounts payable and accrued liabilities	1,132,731	1,390,560
Unearned revenue (Note 13)	1,814,263	1,585,812
Deferred contributions (Note 8)	787,449	998,705
Lease obligation (Note 11)	173,924	143,584
	5,633,208	5,794,487
Deferred capital contributions (Note 9)	3,086,391	4,007,934
Unamortized deferred capital contributions (Note 10)	17,146,771	17,663,947
Long-term lease obligation (Note 11)	15,807	161,918
	25,882,177	27,628,286
Net Assets:		
Unrestricted	879,895	272,793
Internally restricted (Note 26)	8,161,237	7,400,567
Invested in capital assets (Note 25)	4,374,710	4,180,244
Endowments (Note 3)	587,236	409,731
	14,003,078	12,263,335
	$39,885,255	$39,891,621

The accompanying notes are part of these financial statements.

BOW VALLEY COLLEGE

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Revenue:		
Provincial government contributions and grants (Note 14)	$17,660,728	$ 16,719,280
Tuition fees	10,504,481	9,193,682
Entrepreneurial contracts and other grants (Note 15)	8,803,182	7,575,522
Ancillary and other services (Note 16)	1,371,977	1,159,890
Investment income (Note 17)	333,823	345,749
Donations and contributions	380,475	393,351
Amortization of deferred capital contributions (Note 10)	1,353,789	1,362,597
	40,408,455	36,750,071
Expense:		
Compensation and benefits (Note 18)	26,853,695	23,606,148
Supplies and services (Note 20)	8,710,428	8,365,919
Amortization of capital assets	2,276,958	2,125,791
Cost of goods sold (Note 6)	834,311	695,029
Scholarship and bursaries	170,360	191,171
Loss on disposal of capital assets	465	5,620
	38,846,217	34,989,678
Excess of revenue over expense	$ 1,562,238	$ 1,760,393

The accompanying notes are part of these financial statements.

BOW VALLEY COLLEGE

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2005

	2005					2004
	Unrestricted	Internally Restricted (Note 26)	Invested in Capital Assets (Note 25)	Endowments	Total	Total
Excess of revenue over expense	$1,562,238	$ -	$ -	$ -	$ 1,562,238	$ 1,760,393
Internally restricted net assets – net transfer (Note 26)	(760,670)	760,670	-	-	-	-
Acquisition of internally funded capital assets	(959,634)	-	959,634	-	-	-
Net book value of disposed assets - internally funded	659	-	(659)	-	-	-
Amortization of internally funded capital assets	923,169	-	(923,169)	-	-	-
Repayment of obligation under capital lease	(158,660)	-	158,660	-	-	-
Contributions to endowments	-	-	-	177,505	177,505	134,666
Increase in net assets	607,102	760,670	194,466	177,505	1,739,743	1,895,059
Net assets, beginning of year	272,793	7,400,567	4,180,244	409,731	12,263,335	10,368,276
Net assets, end of year	$ 879,895	$ 8,161,237	$ 4,374,710	$ 587,236	$ 14,003,078	$ 12,263,335

BOW VALLEY COLLEGE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Operating Activities:		
Excess of revenue over expense	$ 1,562,238	$ 1,760,393
Non-cash transactions:		
Amortization of deferred capital contributions (Note 10)	(1,353,789)	(1,362,597)
Amortization of capital assets - externally funded	1,353,789	1,359,450
Amortization of capital assets - internally funded	923,169	766,341
Loss on disposal of capital assets	465	5,620
	2,485,872	2,529,207
Net change in non-cash working capital (Note 24)	(140,371)	472,772
Cash generated from operating activities	2,345,501	3,001,979
Investing Activities:		
(Increase) in non-current cash and cash equivalents	(326,811)	(1,785,061)
Acquisition of capital assets - externally funded	(836,613)	(876,830)
Acquisition of capital assets - internally funded	(959,634)	(915,412)
Acquisition of capital assets - financing	(42,889)	-
Proceeds on disposal of capital assets	194	535
Cash applied to investing activities	(2,165,753)	(3,576,768)
Financing Activities:		
Net capital contributions received (Note 9)	(84,930)	1,072,930
Payment on capital leases	(158,660)	(142,582)
Long-term lease financing	42,889	-
Endowment contributions	177,505	134,666
Cash (applied to) generated from financing activities	(23,196)	1,065,014
Increase in cash	156,552	490,225
Cash and cash equivalents, at beginning of year	3,300,700	2,810,475
Cash and cash equivalents, at end of year	$ 3,457,252	$ 3,300,700

The accompanying notes are part of these financial statements.

Note 1 Authority and Purpose

Bow Valley College operates under the authority of the Post Secondary Learning Act, Statutes of Alberta 2003, Chapter P-19.5.

The College serves primarily the City of Calgary and communities in Southern Alberta. The College provides instruction and training to assist adult learners through academic upgrading programs; career entry training in business, health, and service industries; and English as a second language programs. The College maintains a special interest in providing programs and services to aboriginal communities.

The College is a registered charity and is exempt from payment of income tax.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates that may vary from actual results. The following accounting policies are considered significant:

(a) Revenue Recognition

Unrestricted Contributions

Unrestricted operating grants and other contributions are recognized as revenue in the period receivable. Operating grants received for use in a future period are deferred until that future period.

Restricted Contributions

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred.

Externally restricted capital contributions are recorded as deferred capital contributions until the amount is invested in capital assets. Contributions for capital assets that will be amortized are transferred to unamortized deferred capital contributions in the period the asset is acquired.

Unamortized deferred capital contributions are recognized in revenue as amortization of deferred capital contributions in the period in which the related capital assets are amortized. Unamortized deferred capital contributions relating to capital assets disposed of are recognized as revenue in the period of disposal, provided that all restrictions have been complied with.

Externally restricted contributions for endowment purposes are not recognized as revenue, but are recorded as direct increases in net assets.

Note 2 Significant Accounting Policies and Reporting Practices (cont.)

Investment Income

Unrestricted investment income is recognized in the year it is earned.

Investment income subject to external restrictions is, depending on the nature of the restriction, recorded as direct increases to net assets, or is deferred and recognized as revenue in the period the related expenses are incurred.

Program Delivery

Amounts received for tuition fees and sale of goods and services are recognized as revenue in the period in which the programs, goods or services are provided.

Revenue from contract programs are determined on the percentage of completion method. Provision is made for all anticipated losses as soon as they become evident.

Pledges

Pledges are recognized as revenue when collected.

(b) Investments

Investments are held as temporary investments and valued at the lower of cost or market.

(c) Capital Assets

Capital asset acquisitions are recorded at cost, except donated assets, which are recorded at fair value, when fair value is reasonably determined.

Capital assets are amortized on a straight-line basis over the following estimated average useful lives:

Building	22 years
Furniture, vehicles and equipment	10 years
Computer equipment and related software	3-5 years
Software development	3 years
Educational resources	2 years
Intellectual property	2 years

Leasehold and site improvements are amortized over the lower of the expected useful life of the related buildings or the remaining term of the lease.

Assets under capital leases are amortized on a basis that is consistent with the above.

Capital assets under construction are not amortized until construction is complete and the assets are ready for productive use.

(d) Inventories

Inventories that are comprised of goods for resale are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Inventories held for consumption are valued at the lower of cost and replacement value.

Note 2 Significant Accounting Policies and Reporting Practices (cont.)

(e) Employee Future Benefits

The College participates in the Public Service Pension Plan (PSPP) and the Management Employees Pension Plan (MEPP). These pension plans are multi-employer defined benefit pension plans that provide pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates, which are expected to provide for benefits payable under the pension plan. The College's portion of the pension plan's deficit or surplus is not recorded by the College.

(f) Financial Instruments

The College's financial instruments consist of cash and investments, accounts receivable, accounts payable and accrued liabilities, accrued vacation pay and lease obligations.

The College is exposed to currency risk (the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates); interest rate risk (the risk that the value of a financial instrument will fluctuate due to changes in market interest rates); and market risk (the risk that the value of a financial instrument will fluctuate as a result of changes in market prices).

It is management's opinion that the College is not exposed to significant currency, interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value.

Note 3 Endowments

Endowments consist of externally restricted donations to the College, the principal of which is required to be maintained in perpetuity. The investment income from endowments must be used in accordance with the purpose established by the donor.

Note 4 Cash and Cash Equivalents, and Non-current Cash

Cash funds are invested in a daily interest earnings account with a Canadian chartered bank. The rates earned during the year ranged from 0.93% to 1.50% (2004: 0.75 % to 1.87%). Cash equivalents are invested in a Cash Management Fund with earned rates ranging from 2.05% to 2.59% (2004: 2.16% to 3.13%).

	2005	2004
Cash equivalents	$ 11,539,696	$ 11,119,615
Cash	3,752,420	3,689,138
Non-current	(11,834,864)	(11,508,053)
	$ 3,457,252	$ 3,300,700

Non-current cash and cash equivalents consist of amounts not available for current operations and include:

	2005	2004
Deferred capital contributions (Note 9)	$ 3,086,391	$ 4,007,934
Internally restricted net assets (Note 26)	8,161,237	7,090,388
Endowments	587,236	409,731
	$ 11,834,864	$ 11,508,053

Note 5 Inventories

	2005	2004
Books and educational materials	$ 316,411	$ 239,771
Artwork	232,332	232,332
Consumable supplies	81,045	95,712
	$ 629,788	$ 567,815

Note 6 Cost of Goods Sold

Cost of goods sold consists of books and educational materials as follows:

	2005	2004
Bookstore	$ 795,843	$ 659,092
Health and Community Care	19,943	22,549
Test Of Workplace Essential Skills	18,525	13,388
	$ 834,311	$ 695,029

Note 7 Capital Assets

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Building	$ 19,739,323	$ 4,707,837	$15,031,486	$15,928,677
Campus expansion – work in progress	234,058	-	234,058	61,064
Land	2,305,697	-	2,305,697	2,305,697
Computer equipment and related software	5,697,887	4,618,944	1,078,943	1,316,836
Furniture and equipment	2,562,489	894,490	1,667,999	1,486,274
Leasehold and site improvements	2,260,726	891,676	1,369,050	995,194
Educational resources	117,047	117,047	-	-
Intellectual property	63,944	39,965	23,979	55,951
Vehicles	24,083	24,083	-	-
	$ 33,005,254	$ 11,294,042	$21,711,212	$22,149,693

Included in capital assets are items that have not been amortized as the work was not completed and the asset was not in use as of June 30.

	2005	2004
Campus expansion- work in progress	$ 234,058	$ 61,064
Computer equipment and related software	186,034	-
Leasehold improvements	-	51,896

Included in computer equipment and related software are assets under capital leases with an original cost of $739,079 (2004: $739,079) and accumulated amortization of $626,106 (2004: $550,791).

Included in furniture and equipment are assets under capital leases with an original cost of $301,269 (2004: $258,378) and accumulated amortization of $124,546 (2004: $67,667).

The College disposed of capital assets with an original cost of $8,525 (2004: $243,437) and accumulated amortization of $7,866 (2004: $237,281).

Note 8 **Deferred Contributions**

The deferred contributions balance represents amounts accounted for in accordance with the accounting policy described in Note 2 (a).

	2005	2004
Contributions received during the year:		
Conditional funding	$ 1,695,507	$ 1,828,531
Donations and contributions	333,528	273,291
Entrepreneurial contracts and other grants	151,255	-
	2,180,290	2,101,822
Transfers from (to):		
Deferred capital contributions (Note 9)	349,056	(265,726)
	2,529,346	1,836,096
Transferred to:		
Conditional funding (Note 14)	(2,251,891)	(1,798,907)
Donations and contributions	(293,949)	(238,241)
Entrepreneurial contracts and other grants	(194,762)	(32,647)
	(2,740,602)	(2,069,795)
Decrease during the year	(211,256)	(233,699)
Deferred contributions, beginning of year	998,705	1,232,404
Deferred contributions, end of year	$ 787,449	$ 998,705

Unspent amounts at the end of the year are restricted for the following purposes:

	2005	2004
Academic Foundations	$ 247,046	$ 443,196
Student Awards	240,858	148,940
Learning Resource Services	107,279	159,117
Health and Community Care	91,956	155,019
Facilities	26,332	26,332
Office of the Registrar	10,000	-
English as a Second Language	59,778	56,601
Business and Industry Training	4,200	3,400
Health Services	-	6,100
	$ 787,449	$ 998,705

Note 9 Deferred Capital Contributions

	2005	2004
Contributions received during the year:		
Grant for leasehold improvements	$ 214,240	$ 106,500
Grant for infrastructure maintenance program	46,000	356,000
Gift-in-kind	3,886	-
Access grant for practical nurse program	-	311,704
Grant for assistive technology program	-	33,000
	264,126	807,204
Transferred (to) from deferred contributions:		
Deferred contributions (Note 8)	(349,056)	265,726
	(84,930)	1,072,930
Transferred to:		
Unamortized deferred capital contributions (Note 10)		
Infrastructure maintenance program	(399,748)	(202,521)
Leasehold improvements	(214,240)	(106,500)
College renovation project	(173,045)	(61,014)
Knowledge network	(31,882)	-
Practical nurse program	(7,917)	(454,290)
Health services	(3,518)	-
College general	(3,886)	-
Assistive technology program	(2,377)	(12,379)
Computer technology certificate	-	(29,017)
Community initiatives program	-	(11,109)
	(836,613)	(876,830)
(Decrease) increase during the year	(921,543)	196,100
Deferred capital contributions, beginning of year	4,007,934	3,811,834
	$ 3,086,391	$ 4,007,934

Unspent amounts at end of year are restricted for the following purposes:

	2005	2004
College renovation project	$ 2,765,942	$ 2,938,987
Practical nurse	278,505	623,062
Infrastructure maintenance program	18,025	371,773
Knowledge network	11,882	43,764
Assistive technology	5,000	25,893
Instructional related equipment	3,564	3,564
Health services	2,582	-
Community initiatives program	891	891
	$ 3,086,391	$ 4,007,934

Note 10 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the funded portion of capital assets which will be recognized in future periods. Changes in the unamortized deferred capital contributions balances are as follows:

	2005	2004
Balance at the beginning of year	$ 17,663,947	$ 18,149,714
Add: Purchase of capital assets (Note 9)	836,613	876,830
Less: Amortization of deferred capital contributions	(1,353,789)	(1,362,597)
	$ 17,146,771	$ 17,663,947

Note 11 Lease Obligation

The College has entered into capital leases with interest rates ranging from 8.40% to 18.64% (2004: 9.00% to 18.64%).

	2005	2004
Capital lease obligations	$ 189,731	$ 305,502
Less: current portion	(173,924)	(143,584)
	$ 15,807	$ 161,918

The minimum annual payments under capital lease obligations are as follows:

2005-2006	$ 195,326
2006-2007	9,105
2007-2008	8,285
Total minimum lease payments	$ 212,716
Less: Amounts representing interest	(22,985)
Capital lease obligations	$ 189,731

During the year, interest on capital lease obligations amounting to $25,276 (2004: $42,166) has been charged to expense.

Note 12 Commitments

(a) Lease Commitments

Future minimum annual lease payments under operating leases are:

Fiscal year	
2006	$ 1,764,252
2007	$ 1,745,833
2008	$ 1,545,606
2009	$ 173,422
2010	$ 36,507

(b) Utility Commitment

In order to manage its exposure to the volatility in the electrical industry, the Board of Governors has entered into a five year contract, beginning January 1, 2001 to fix its electrical cost at an average of 8.42 cents a kilowatt hour. Based on 2005 consumption, the annual costs for the year ending June 30, 2006 are expected to be $440,000.

Note 13 Unearned Revenue

Unearned revenue is summarized as follows:

	2005	2004
Tuition fees	$ 1,640,734	$ 1,500,018
Contract programs	173,529	85,794
	$ 1,814,263	$ 1,585,812

Note 14 Provincial Government Contributions and Grants

	2005	2004
Provincial government contributions and grants consist of:		
General operating grant	$ 15,408,837	$ 14,920,373
Conditional funding (Note 8)	2,251,891	1,798,907
	$ 17,660,728	$ 16,719,280

Note 15 Entrepreneurial Contracts and Other Grants

Entrepreneurial contracts and other grants consist of:

	2005	2004
Government contracts	$ 7,197,203	$ 6,109,372
Other agencies and private sector	1,605,979	1,466,150
	$ 8,803,182	$ 7,575,522

Note 16 Ancillary and Other Services

Ancillary and other services revenue consist of:

	2005	2004
Ancillary Department	$ 1,144,711	$ 993,927
Academic Departments	103,639	87,802
Test of Workplace Essential Skills	77,189	51,016
Centre for Career Advancement	23,434	11,517
Other sales	23,004	15,628
	$ 1,371,977	$ 1,159,890

Note 17 Investment Income

	2005	2004
Total investment income earned	$ 345,068	$ 355,608
Less transferred to deferred contributions	(11,245)	(9,859)
	$ 333,823	$ 345,749

Note 18 Compensation and Benefits

	2005	2004
Salaries, wages, benefits, staff development	$ 26,603,268	$ 23,477,202
Vacation pay	239,893	119,446
Separation payments	10,534	9,500
	$ 26,853,695	$ 23,606,148

Note 19 Pension Expense

Bow Valley College participates in two multi-employer pension plans, Public Services Pension Plan (PSPP) and the Management Employees Pension Plan (MEPP).

The expense for these plans was $1,268,858 for the year ended June 30, 2005 (2004: $1,093,392).

At December 31, 2004, the PSPP reported a deficiency of $268,101,000 (2003: $290,014,000).

At December 31, 2004, the MEPP reported a deficiency of $450,068,000 (2003: $584,213,000).

Note 20 Supplies and Services

	2005	2004
Facility and equipment leases	$ 1,957,292	$ 1,647,881
Professional contracted services	1,592,024	1,739,448
Maintenance and renovations	978,253	1,001,263
Advertising	904,208	980,059
Instructional and office supplies	772,521	688,012
Utilities	562,281	580,017
Travel	435,205	353,353
Non-capital furniture and equipment	336,564	247,354
Computer costs	216,306	281,860
Telecommunications and rentals	207,853	201,686
Freight and postage	152,879	97,491
Bank charges and lease interest	131,120	121,848
Insurance	106,367	109,742
Memberships and subscriptions	74,018	61,425
Other supplies and services	283,537	254,480
	$ 8,710,428	$ 8,365,919

Note 21 Related Parties

The College is a Provincial Corporation. The members of the Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education.

a) Transactions between the College and the Province and closing balances are disclosed as follows:

2005

	Transactions				Closing Balances	
	Revenue	Unamortized Deferred Capital Contributions	Deferred Contributions and Deferred Capital Contributions	Unearned Revenue	Accounts Receivable	Accounts Payable
General operating grant	$15,408,837	$ -	$ -	$ -	$ -	$ -
Conditional funding	2,251,891	612,592	(1,165,943)	-	84,073	-
	17,660,728	612,592	(1,165,943)	-	84,073	-
Contract programs	3,723,150	-	-	(48,831)	656,126	19,019
	$21,383,878	$ 612,592	$ (1,1,65,943)	$ (48,831)	$ 740,199	$ 19,019

2004

	Transactions				Closing Balances	
	Revenue	Unamortized Deferred Capital Contributions	Deferred Contributions and Deferred Capital Contributions	Unearned Revenue	Accounts Receivable	Accounts Payable
General operating grant	$14,920,373	$ -	$ -	$ -	$ -	$ -
Conditional funding	1,798,907	757,951	(93,270)	-	85,909	-
	16,719,280	757,951	(93,270)	-	85,909	-
Contract programs	3,360,825	-	-	(5,448)	532,543	16,259
	$20,080,105	$ 757,951	$ (93,270)	$ (5,448)	$ 618,452	$ 16,259

During the year, Bow Valley College had business transactions with other public colleges, technical institutes and universities in Alberta. These transactions were at market prices on normal terms of purchase and sale.

(b) Joint Venture

On December 18, 1998, the Lieutenant Governor in Council approved the incorporation of a corporation, to be owned equally by Bow Valley College, Northern Lakes College, Norquest College, and Portage College. On February 10, 1999, 818196 Alberta Limited was incorporated pursuant to the Alberta Business Corporations Act.

The corporation was created for the purpose of holding the jointly developed intellectual property transferred from her Majesty the Queen in Right of the Province of Alberta as represented by the Minister of Learning. The fair value of the intellectual property transferred cannot be reasonably determined. At June 30, 2005 the corporation was not active.

Note 22 Salaries and Benefits

The salary and benefit disclosure is provided pursuant to Treasury Board Directive 12/98, (as amended July 6, 2004) and includes only the salaries and benefits of those individuals in the senior decision making group of the College.

	2005				2004
	Salary [1]	Other Cash Benefits [2]	Other Non-Cash Benefits [3]	Total	Total
Board of Governors [4]	$ -	$ 8,490	$ -	$ 8,490	$ 8,951
President and Chief Executive Officer	160,383	23,558	19,899	203,840	167,583
Vice President, Learning	123,000	823	18,141	141,964	131,995
Vice President, College Services	121,000	1,497	19,127	141,624	136,687
Vice President, External Relations	116,000	12,554	6,671	135,225	126,701
Director, Development	96,390	4,840	18,406	119,636	112,854
	$ 616,773	$ 51,762	$ 82,244	$ 750,779	$ 684,771

(1) Salary includes pensionable base pay.

(2) Other cash benefits include bonuses, vacation payouts, lump sum payments and honoraria.

(3) The College's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, out of country medical benefits, group life insurance, accidental death and dismemberment insurance, long and short term disability plan, vehicle allowances, Employment Insurance, Canada Pension Plan, Workers' Compensation, professional memberships, and tuition.

(4) The majority of the eleven College board members do not accept honoraria from the College. Instead, the value of the honoraria not accepted of $8,070 (2004: $8,531) was allocated to student scholarships.

Note 23 Budget

The College is required to submit a budget, approved by the Board of Governors of the College, to the Minister of Alberta Advanced Education for his approval. The 2004-2005 College budget was approved by the Board of Governors on May 25, 2004.

Revenue

General operating grant	$	15,224,794
Conditional grants		2,410,199
Tuition fees		10,552,897
Contract revenue		8,430,749
Ancillary revenue		1,530,935
Donations and contributions		239,300
Investment income		310,969
Amortization of deferred capital contributions		1,355,852
	$	40,055,695

Expense

Compensation and benefits	$	26,264,548
Supplies and services		8,542,754
Cost of goods sold		605,550
Facility leases		1,692,115
Utilities		613,473
Scholarships and bursaries		178,950
Amortization of capital assets		2,051,123
	$	39,948,513
Excess of revenue over expense	$	107,182

Note 24 Changes in Non-Cash Working Capital

		2005		2004
Decrease in accounts receivable	$	148,384	$	1,014,930
Increase in inventories		(61,973)		(54,713)
(Increase) decrease in prepaid expenses		(35,163)		3,737
Increase (decrease) in accrued vacation pay		49,015		(75,626)
Decrease in accounts payable and accrued liabilities		(257,829)		(142,894)
Increase (decrease) in unearned revenue		228,451		(38,963)
Decrease in deferred contributions		(211,256)		(233,699)
	$	(140,371)	$	472,772

Note 25 Net Assets Invested in Capital Assets

	2005	2004
Capital assets	$ 21,711,212	$ 22,149,693
Financed by debt	(189,731)	(305,502)
Unamortized deferred capital contributions	(17,146,771)	(17,663,947)
	$ 4,374,710	$ 4,180,244

Note 26 Internally Restricted Net Assets

The Board of Governors has designated the following funds as restricted net assets:

	2005			
	Opening	Appropriations	Expended	Closing
Facilities improvement	$5,703,000	$ 1,400,000	$ (48,000)	$7,055,000
Donation from estate	559,543	-	-	559,543
Technology requirements	600,000	-	(300,000)	300,000
Program delivery	296,400	-	(296,400)	-
Fund development	227,845	-	-	227,845
Board of Governors Scholarship	13,779	8,070	(3,000)	18,849
	$7,400,567	$ 1,408,070	$ (647,400)	$8,161,237

Note 27 Pledges

In October 2001, the College embarked on a five-year $10,000,000 integrated fundraising campaign. As at June 30, 2005 outstanding pledges were $659,520 (2004: $402,400).

Note 28 Contingencies

The College, in the conduct of its normal activities, is a named participant in legal proceedings. The College is one of approximately 450 named participants in one legal proceeding. While the ultimate outcome of this proceeding cannot be predicted at this time, it is the opinion of the College's administration that adequate provision for this proceeding has been made in the College's accounts. It is believed that the resolution of the proceeding will not have a material effect on the financial position of the College, however, should any additional loss result from the resolution of this proceeding, such amounts would be expensed as the related amounts become known to the College.

Note 29 Comparative Figures

Certain comparative figures have been reclassified to conform with the current year presentation.

Note 30 Approval of Financial Statements

These financial statements were approved by the Board of Governors.

GRANDE PRAIRIE REGIONAL COLLEGE
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Grande Prairie Regional College

I have audited the consolidated statement of financial position of the Grande Prairie Regional College as at June 30, 2005 and the consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
October 15, 2005

GRANDE PRAIRIE REGIONAL COLLEGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

	2005	2004
ASSETS		
Current		
Cash	$ -	$ 2,721,492
Accounts receivable	1,231,479	986,871
Inventories (Note 3)	539,486	326,007
Prepaid expenses	-	12,766
	1,770,965	4,047,136
Long-term investments (Note 4)	10,267,062	7,804,460
Capital assets (Note 5)	33,045,707	34,366,755
	$ 45,083,734	$ 46,218,351
LIABILITIES AND NET ASSETS		
Current		
Bank Indebtedness	$ 609,288	$ -
Accounts payable	1,226,760	1,596,048
Accrued vacation pay	1,291,173	1,170,000
Unearned revenue (Note 6)	260,013	274,710
Four-for-five Leave Plan (Note 7)	619,868	618,912
Deferred contributions (Note 8)	647,792	598,369
Obligation under capital lease (Note 9)	128,407	114,563
Long-term debt (Note 10)	36,000	36,000
	4,819,301	4,408,602
Non-current		
Obligation under capital lease (Note 9)	118,006	246,413
Long-term debt (Note 10)	776,000	812,000
Deferred capital contributions (Note 8)	538,188	1,254,569
Unamortized deferred capital contributions (Note 11)	28,115,507	29,726,171
	29,547,701	32,039,153
Net assets		
Endowments (Note 12)	2,896,692	2,817,012
Investment in capital assets	3,871,787	3,431,608
Internally restricted net assets (Note 13)	2,757,659	2,327,070
Unrestricted net assets	1,190,594	1,194,906
	10,716,732	9,770,596
	$ 45,083,734	$ 46,218,351

GRANDE PRAIRIE REGIONAL COLLEGE
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED JUNE 30, 2005

	2005		2004
	Budget (Note 15)	Actual	Actual
Revenue			
Grants (Note 16)	$ 16,811,329	$ 17,892,725	$ 17,446,173
Tuition and related fees	7,008,550	6,647,366	6,563,352
Sales, rentals and services (Note 17)	2,554,136	3,242,742	2,790,426
Contract programs	919,306	1,049,335	1,144,254
Fund raising and donations	887,900	1,104,029	652,055
Investments	379,000	390,371	427,083
Gain on disposal of capital assets	-	6,148	-
	28,560,221	30,332,716	29,023,343
Amortization of deferred capital contributions (Note 11)	1,535,000	1,984,066	1,537,933
	30,095,221	32,316,782	30,561,276
Expense (Note 18)			
Salaries and benefits (Note 19)	19,237,858	19,458,619	18,111,343
Supplies and services	6,329,070	7,470,326	6,187,003
Amortization of capital assets	2,190,000	2,644,021	2,162,871
Utilities	952,341	812,083	817,826
Cost of goods sold	893,002	839,767	891,551
Scholarships and bursaries	192,000	225,510	212,280
Loss on disposal of capital assets	-	-	10,785
	29,794,271	31,450,326	28,393,659
Excess of revenue over expense	$ 300,950	$ 866,456	$ 2,167,617

GRANDE PRAIRIE REGIONAL COLLEGE
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2005

	2005					2004
	Endowments	Investment in Capital Assets	Internally Restricted Net Assets	Unrestricted Net Assets	Total	Total
Excess of revenue over expense	$ -	$ -	$ -	$ 866,456	$ 866,456	$ 2,167,617
External endowment contributions	79,680	-	-	-	79,680	53,091
Transfers						
Acquisition of internally funded capital assets	-	949,571	-	(949,571)	-	-
Payment of capital lease principal	-	114,563	-	(114,563)	-	-
Payment of long term debt principal	-	36,000	-	(36,000)	-	-
Amortization of internally funded capital assets	-	(659,955)	-	659,955	-	-
Internal restrictions	-	-	430,589	(430,589)	-	-
Increase (decrease) in net assets	79,680	440,179	430,589	(4,312)	946,136	2,220,708
Net assets at beginning of year	2,817,012	3,431,608	2,327,070	1,194,906	9,770,596	7,549,888
Net assets at end of year	$ 2,896,692	$ 3,871,787	$ 2,757,659	$1,190,594	$10,716,732	$ 9,770,596

GRANDE PRAIRIE REGIONAL COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2005

	2005	2004
Operating activities		
Excess of revenue over expense	$ 866,456	$ 2,167,617
Add (deduct) non-cash transactions		
Amortization of capital assets	2,644,021	2,162,872
Loss (gain) on disposal of capital assets	(6,148)	10,785
Amortization of deferred capital contributions	(1,984,066)	(1,537,933)
Amortization of investment discount	(226,998)	(116,633)
	1,293,265	2,686,708
Changes in non-cash working capital (Note 22)	(657,754)	977,553
Cash generated from operating activities	635,511	3,664,261
Investing activities		
Proceeds on disposal of capital assets	6,148	10,548
Acquisition of capital assets	(1,322,972)	(1,507,756)
Purchase of investments	(29,310,228)	(9,796,460)
Disposal of investments	27,074,623	8,519,681
Cash applied to investing activities	(3,552,429)	(2,773,987)
Financing activities		
Payment of capital lease principal	(114,563)	(101,896)
Payment of long term debt principal	(36,000)	(36,000)
Endowment contributions	79,680	53,091
Capital contributions (Note 8)	(342,979)	1,070,928
Cash generated from (used by) financing activities	(413,862)	986,123
Increase (decrease) in cash	(3,330,780)	1,876,397
Cash at beginning of year	2,721,492	845,095
Cash (Deficiency) at end of year	$ (609,288)	$ 2,721,492

Note 1 Authority and Purpose

Grande Prairie Regional College (the "College") operates under the authority of the Post Secondary Learning Act, Chapter P-19.5, Revised Statutes of Alberta 2003. The College is a registered charity and is exempt from the payment of income taxes under the Income Tax Act (Canada).

The College's purpose is to provide students with university transfer, on-campus degree completion, career training, post-secondary preparatory and continuing education programs that contribute to the economic and social well-being of the region.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These consolidated financial statements include the accounts of the Grande Prairie Regional College Alumni/Foundation (the "Foundation"), which operates under the Alberta Companies Act and is a registered charitable organization for income tax purposes. The Foundation's activities are directed to the support and advancement of the College.

(b) Revenue Recognition

Unrestricted contributions are recognized as revenue when they are received.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period the related expenses are incurred.

Externally restricted capital contributions are deferred until the related capital asset is acquired. Contributions for capital assets that will be amortized are transferred to unamortized deferred capital contributions in the period the asset is acquired and are recognized as revenue in the periods the related capital assets are amortized. Contributions for capital assets that will not be amortized, such as land, are recorded as direct increases in net assets in the period the asset is acquired.

Externally restricted endowment contributions are recorded as direct increases in net assets.

Government grants are accounted for as unrestricted or externally restricted contributions in accordance with the terms of funding.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Amounts received for tuition and related fees, sales, rentals and services and contract programs are recorded as unearned revenue and recognized as revenue in the period the goods are delivered or the services are provided.

(c) Endowments

Endowments represent restricted donations and amounts designated as endowments by the Board of Directors of the Foundation. Principal is to be held intact. Interest earned on endowments must be used in accordance with the conditions imposed by the donors' terms of reference or by Board policy.

(d) Internally Restricted Net Assets

Internally restricted net assets are amounts set aside by the College Board of Governors to be used for designated purposes.

(e) Long-term Investments

Investments are recorded at cost. Gains and losses on investments are recognized in the period of disposal or when there is an impairment other than temporary in the value of the investment.

(f) Capital Assets

Capital asset acquisitions are recorded at cost, except donated assets which are recorded at fair value when a fair value can be reasonably determined.

Capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Buildings	25 to 40 years
Site improvements	25 years
Furnishings and equipment	5 to 15 years
Vehicles	5 years
Library materials	10 years
Leasehold improvements	5 years

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(g) Leases

A lease that transfers substantially all of the benefits and risks of ownership is classified a capital lease. At the inception of a capital lease, an asset and a payment obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair market value. Assets under capital leases are amortized on a straight- line basis, over their estimated useful lives. All other leases are accounted for as operating leases and rental payments are expensed as incurred.

(h) Long-lived assets

Long-lived assets consist of capital assets. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The College performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value.

(i) Art Collection

The College holds a collection of approximately 2,600 works of donated art, consisting of sketches, limited edition prints, photographs, and some original paintings. The collection is held by the College for educational use and for public exhibition. The Board of Governors passed a resolution requiring the art to be cared for and preserved.

Collection artworks are not recognized as assets in the Statement of Financial Position. Any proceeds from their sale or disposal may be used only to acquire other art for the collection or to care for the existing collection. Purchased art added to the collection will be expensed in the year of acquisition. To date, no artwork has been purchased for this collection.

(j) Inventories

Inventories for resale are valued at the lower of cost and estimated net realizable value. Cost is determined on a first-in, first-out basis. Inventories held for consumption are valued at the lower of cost and replacement value.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(k) Pensions

The College participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provides pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates that are expected to provide for benefits payable under the pension plan. The College does not record the College's portion of the pension plan's deficit or surplus.

(l) Cash and equivalents

Cash include balances with banks and short-term investments with maturities of three months or less.

(m) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of Capital Assets.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Note 3 Inventories

	2005	2004
Bookstore	$ 504,125	$ 293,717
Duplicating Services	30,980	24,945
Financial Services	3,367	6,358
Climbing Gym	1,014	987
	$ 539,486	$ 326,007

Note 4 Long-term Investments

	2005		2004	
	Book Value	Market Value	Book Value	Market Value
Bonds and bank notes				
Government of Canada bonds	$ 1,100,000	$ 1,191,905	$1,100,000	$ 1,219,251
Provincial bonds	3,769,429	4,102,685	3,568,741	3,588,144
Canadian bank notes	4,226,615	4,227,119	2,060,345	2,060,184
Corporate bonds	562,474	627,164	530,924	543,855
	9,658,518	10,148,873	7,260,010	7,411,434
Equities	608,544	722,936	544,450	603,626
	$ 10,267,062	$10,871,809	$7,804,460	$ 8,015,060

Note 4 Long-term Investments (continued)

Bonds and bank notes by range of maturity date are as follows:

	2005		
	Book Value	Market Value	Effective Yield to Maturity
Maturity 1 - 5 years	$ 7,106,444	$ 7,310,822	3.2%
Maturity 6 - 10 years	1,327,092	1,500,034	6.0%
Maturity 11- 15 years	1,168,613	1,270,588	5.6%
Maturity 16- 20 years	56,369	67,429	6.0%
	$ 9,658,518	$ 10,148,873	3.9%

The market value may fluctuate with changes in current interest rates. Market values may decrease if interest rates increase and market values may increase if interest rates decrease.

Term to maturity is based upon the contractual maturity of the security. Effective yield represents the rate that discounts future cash receipts to the carrying value of the investments at June 30, 2005

Where fair value is less than cost, in management's best judgment, and based on market trends, the fair value will likely recover over time.

Note 5 Capital Assets

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 713,631	$ -	$ 713,631	$ 713,631
Buildings	50,530,890	21,718,312	28,812,578	30,676,481
Buildings under construction	681,195	-	681,195	-
Site improvements	1,279,036	1,192,699	86,337	108,986
Furnishings, equipment and vehicles	11,584,115	9,634,970	1,949,145	2,085,832
Library materials	1,624,650	821,829	802,821	781,825
	$ 66,413,517	$ 33,367,810	$ 33,045,707	$ 34,366,755

Buildings under construction are currently not amortized. Amortization will begin upon the first of substantial completion or availability of use.

Note 6 Unearned Revenue

	2005	2004
Tuition and other student fees	$ 84,663	$ 106,210
Sales, rentals and services	175,350	168,500
	$ 260,013	$ 274,710

Note 7 Four-for-five Leave Plan

Employees of the College who are members of the Academic Staff Association or the Employees Association are eligible to apply for a four-for-five leave plan. Employees' contributions are held by the College until the leave period when they are paid to the employee as salary with a matching amount from the College. Employees' contributions are held by the College and recorded as a liability. The College matching amount and interest earned on the employees' contributions are also recorded as a liability until paid to the employee.

	2005	2004
Employees' contributions held by College	$ 292,789	$ 296,421
College matching contributions	292,789	296,421
Interest held on employees' contributions	34,290	26,070
	$ 619,868	$ 618,912

Note 8 Deferred Contributions

Deferred contributions represent unspent funds externally restricted. Changes in the deferred contributions balances for non-capital and for capital purposes are as follows:

Deferred contributions - conditional grants, donations, and other deferred contributions

	2005	2004
Contributions received during the year	$ 1,355,881	$ 1,363,316
Transferred from deferred capital contributions	763,286	339,576
Transferred to revenue	(1,990,064)	(1,513,971)
Transferred to endowments	(79,680)	(53,091)
Increase during the year	49,423	135,830
Balance at beginning of year	598,369	462,539
Balance at end of year	$ 647,792	$ 598,369
The balance consists of funds restricted for:		
Scholarships and bursaries	$ 439,375	$ 383,963
Theatre	48,017	72,274
S.J. Alward library fund	15,524	9,405
Other	144,876	132,727
	$ 647,792	$ 598,369

Deferred capital contributions

	2005	2004
Contributions received during year	$ 420,307	$ 1,410,504
Transferred to deferred contributions - operating	(763,286)	(339,576)
Transferred to unamortized deferred capital contributions (Note 11)	(373,402)	(845,247)
Increase (decrease) during the year	(716,381)	225,681
Balance at beginning of year	1,254,569	1,028,888
Balance at end of year	$ 538,188	$ 1,254,569

Note 9 Obligation Under Capital Lease

The following is a schedule of future minimum annual lease payments:

2006	$ 143,521
2007	122,391
Total minimum lease payments	265,912
Less amount representing interest	19,499
Capital lease obligation	246,413
Less current portion	128,407
Non-current portion	$ 118,006

The capital lease obligation is at 7.1% and expires on May 4, 2007

Note 10 Long-Term Debt

	Principal Outstanding	
	2005	2004
Student residence - debenture (a)	$ 352,000	$ 368,000
Student residence - debenture (b)	460,000	480,000
Less current portion	(36,000)	(36,000)
	$ 776,000	$ 812,000

Note 10 Long-Term Debt (continued)

(a) On November 15, 2001, the College borrowed the sum of $400,000 from Alberta Capital Financing Authority as a construction loan to build a new student residence. The loan bears interest at 6% and matures November 15, 2026 with 25 annual payments of principal and interest beginning November 15, 2002.

The repayment of principal in the next five fiscal years is as follows:

2006	$ 16,000
2007	16,000
2008	16,000
2009	16,000
2010	16,000

The student residence loan is secured by a general security agreement over all proceeds derived directly or indirectly from the operations of the residence building named Resources Place.

(b) On July 15, 2002, the College borrowed the sum of $500,000 from Alberta Capital Financing Authority as a construction loan to build a new student residence. The loan bears interest at 6.125% and matures July 15, 2027 with 25 annual payments of principal and interest beginning July 15, 2003.

The repayment of principal in the next five fiscal years is as follows:

2006	$ 20,000
2007	20,000
2008	20,000
2009	20,000
2010	20,000

The student residence loan is secured by a general security agreement over all proceeds derived directly or indirectly from the operations of the residence building named Resources Place.

Note 11 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the externally funded portion of capital assets, which will be recognized as revenue in future periods. Changes in the unamortized deferred capital contribution balance are as follows:

	2005	2004
Balance at beginning of year	$ 29,726,171	$ 30,418,857
Add amount transferred from deferred contributions (Note 8)	373,402	845,247
Less amount amortized to revenue	(1,984,066)	(1,537,933)
Balance at end of year	$ 28,115,507	$ 29,726,171

Note 12 Endowments

Endowments are comprised of donations received by the organization and interest earnings that have been redirected to principal as requested by the donor of the original endowment. Externally restricted endowments are required to be maintained intact in accordance with the donor's wishes.

	Balance at Beginning of Year	Contributions and Transfers	Reinvested Earnings	Balance at End of Year
Externally Restricted				
Scholarships fund	$ 1,263,444	$ 79,680	$ -	$ 1,343,124
S.J. Alward library fund	618,550	-	-	618,550
	1,881,994	79,680	-	1,961,674
Internally Restricted				
Scholarships fund	482,127	-	-	482,127
Athletic fund	300,902	-	-	300,902
Theatre fund	78,682	-	-	78,682
Foundation fund	73,307	-	-	73,307
	935,018	-	-	935,018
	$ 2,817,012	$ 79,680	$ -	$ 2,896,692

Note 12 Endowments (continued)

The S.J. Alward library fund contains funds contributed by the Alward estate and the Province of Alberta matching grants for use in connection with the College Library. These funds were placed in the library endowment fund by the Grande Prairie Regional College Foundation Board of Directors, with the agreement of the Alward Estate.

Note 13 Internally Restricted Net Assets

The Management of the College with the approval of the Board of Governors has placed restrictions on the spending of a portion of the accumulated excess of revenue over expenditure for specific purposes as shown below.

The Management of the College may spend these internally restricted amounts for these purposes. They are not available for any other purposes without the approval of the Board.

	2005	2004
Capital		
Student residence	$ 499,229	$ 292,407
Physical activity centre	47,317	48,653
Other departments	56,169	67,438
Duplicating Services	50,000	50,000
	652,715	458,498
Non-capital		
College operating expenses	1,789,255	1,559,862
Foundation - internally restricted	315,689	308,710
	2,104,944	1,868,572
	$ 2,757,659	$ 2,327,070

Note 14 Commitments

Professional Leave

Effective August 15, 1998, the College has agreed under Article 12 of the collective agreement with the Academic Staff Association to provide a total of 48 months of paid professional leave to members of the Academic Staff Association each contract period (August 15 to August 14). Members of the Administrative Group may request approval for paid professional leave.

At June 30, 2005, the following commitments have been made under the above agreement, for which no provision has been made in the financial statements.

	2005	2004
Academic Staff		
July 1, 2005 to August 14, 2005	$ 23,364	$ 27,911
August 15, 2005 to August 14, 2006	248,434	250,144
	$ 271,798	$ 278,055

Note 15 Budget

On March 25, 2004 the Board of Governors approved a revenue and expense budget for Grande Prairie Regional College for 2004-2005. The budget approved provided an annual operating excess of revenue over expense of $300,950. On February 17, 2004 the Board of Directors of the Foundation approved a budget for 2004-05 with operating revenue equal to expense.

The two budgets have been consolidated and presented in the Consolidated Statement of Operations.

Note 16 Grants Revenue

	2005	2004
Departments of Advanced Education, and Infrastructure and Transportation		
Base	$ 16,417,018	$ 16,284,188
Conditional	1,181,051	942,487
Province of Alberta, other	158,763	139,109
	17,756,832	17,365,784
Government of Canada	135,893	80,389
	$ 17,892,725	$ 17,446,173

Note 17 Sales, Rentals and Services

	2005		
	Revenue	Expense	Net
Student Residence	$ 713,943	$ 514,214	$ 199,729
Parking	205,081	13,851	191,230
Bookstore	1,007,841	930,371	77,470
Food Services and Vending	48,992	4,808	44,184
Conference Services	24,851	-	24,851
Sale of Logs	359,818	35,451	324,367
Fitness Centre	160,630	162,246	(1,616)
Climbing Gym	70,208	84,092	(13,884)
Other	651,378	253,292	398,086
	$ 3,242,742	$ 1,998,325	$ 1,244,417

	2004		
	Revenue	Expense	Net
Student Residence	$ 674,713	$ 477,246	$ 197,467
Parking	183,257	6,601	176,656
Bookstore	1,059,838	982,952	76,886
Food Services and Vending	43,331	3,789	39,542
Conference Services	28,366	142	28,224
Sale of Logs	75,952	68,632	7,320
Fitness Centre	153,113	158,636	(5,523)
Climbing Gym	67,515	77,741	(10,226)
Other	504,341	137,154	367,187
	$ 2,790,426	$ 1,912,893	$ 877,533

Note 18 Expense

Expense is summarized by function as follows:

	2005	2004
Direct instruction	$ 14,912,995	$ 13,459,649
Institutional support	7,951,327	7,187,267
Amortization of capital assets	2,644,021	2,162,872
Academic support	1,988,194	1,750,744
Ancillary services	1,831,345	1,753,774
Student services	1,896,934	1,856,288
Scholarships	225,510	212,280
Loss on disposal of capital assets	-	10,785
	$ 31,450,326	$ 28,393,659

Direct instruction encompasses all formal educational and instructional program elements. Institutional support includes all activities that provide College-wide support to other programs. Academic support includes all activities that directly support the educational and instructional elements such as academic, administration, library, and audio-visual services. Student services include all activities or services to the student body of the College.

Note 19 Salaries and Benefits

	2005			
	Base Salaries[1]	Other Cash Benefits[2]	Other Non-Cash Benefits[3,4]	Total
Chairman of the Board[5]	$ -	$ 4,188	$ 39	$ 4,188
Board Members[5]	-	29,524	1,145	29,524
President	127,000	-	17,390	127,000
Vice Presidents				
Academic	117,948	-	17,537	117,948
Administration[7]	122,355	8,846	11,273	131,201
Executive Director				
Advancement	100,811	-	17,328	100,811
Directors				
Workforce Development	93,973	-	15,305	93,973
Communications Services and Technology[7]	107,957	3,170	18,576	111,127
Human Resources	100,811	-	16,826	100,811
Financial Services[6]	38,744	-	4,813	38,744
Campus Operations	100,811	-	16,914	100,811
Registrar	100,811	-	16,826	100,811

(1) Salaries include pensionable base pay.

(2) Other Cash benefits include Board of Governors Honorarium and vacation payouts.

(3) Benefits and allowances represent the College's share of employee benefits including Canada Pension Plan, Employment Insurance, pensions, health care, dental coverage, group life insurance, accidental death and dismemberment insurance.

(4) An automobile allowance is provided to the President, Vice-President – Academic and the Vice-President – Administration of the College and to the Executive Director – Advancement of the Foundation.

(5) The Chairman of the Board and one Board member donated a portion of their remuneration to the Grande Prairie Regional College Foundation in the amount of $5,857 (2004 –$6,163).

(6) The college has eliminated the position of Director of Financial Services. The amount included here represents amounts paid up until November 2004.

(7) Employee Cash Benefits includes vacation pay in the amount of $3,170 (2004 – $nil) for the Director of Communication Services and Technology and $8,846 (2004 – $nil) for the Vice President Administration.

Note 20 Pension Costs

The College participates in a multi-employer pension plan, Local Authorities Pension Plan (LAPP). The expense for this plan is $1,038,683 for the year ended June 30, 2005 (2004 - $778,306).

At December 31, 2004 the LAPP reported a deficit of $1,288,924,000 (2003 – a deficit of $1,410,697,000). Effective January 1, 2004, the employee's contribution rate was increased by 1.0775%, and an additional 0.77% effective January 1, 2005.

Note 21 Related Party

Province of Alberta

The College is a Provincial Corporation as all members of the Board of Governors are appointed by combination of an Order by the Lieutenant Governor in Council and the Minister of Advanced Education. Grants revenue transactions between the College and the Province are disclosed in the College consolidated financial statements as follows:

	2005		
	Revenue	Transferred to Unamortized Capital Contributions	Deferred Contributions
Operations	$ 16,203,025	$ -	$ -
Performance	91,006	-	-
Access	417,765	5,491	4,766
Infrastructure renewal	763,286	40,932	379,695
Site evaluation	-	-	-
Other	371,739	-	-
	$ 17,846,821	$ 46,423	$ 384,461

	2004		
	Revenue	Transferred to Unamortized Capital Contributions	Deferred Contributions
Operations	$ 15,970,490	$ -	$ -
Performance	154,698	-	-
Access	602,911	832	10,256
Infrastructure renewal	338,508	233,125	1,091,913
Site evaluation	1,067	-	-
Other	298,110	-	-
	$ 17,365,784	$ 233,957	$ 1,102,169

During the year the College had business transactions with other entities controlled by the Province of Alberta. These transactions were at market prices on normal terms of purchase and sale.

Note 22 Changes in Non-cash Working Capital

	2005	2004
Accounts receivable	$ (244,608)	$ 205,976
Inventories	(213,479)	(21,016)
Prepaid expenses	12,766	47,956
Accounts payable	(369,288)	470,133
Accrued vacation pay	121,173	(89,614)
Unearned revenue	(14,697)	75,051
Four-for-five Leave Plan	956	153,237
Deferred contributions	49,423	135,830
	$ (657,754)	$ 977,553

Note 23 Financial Instruments

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

Fair value disclosure

The carrying amount of cash, accounts receivable, bank overdraft, current bank loans, accounts payable and accruals approximates their fair value due to the short-term maturities of these items.

The fair value of the college's investments in bonds and equities are based on quoted market prices where available, or on prices for similar investments.

The carrying value of the college's long-term debt approximates its fair value, because interest charges under the terms of the debt are equivalent to loans extended to similar organizations for similar purposes based upon the current Canadian bank prime rate.

Note 24 Subsequent Events

On September 19, 2005, the Alberta Government announced that it would be providing the Grande Prairie Regional College with $3,000,000 to expand its main campus and eliminate aging portables. These funds will be made available to the Grande Prairie Regional College under the Alberta Government's Capital Plan for 2005 – 2008.

Note 24 Subsequent Events (continued)

On September 27, 2005, the Grande Prairie Regional College announced that it had entered a five-year Training Forest Educational Partnership agreement with Tolko Industries (High Prairie Division). This agreement will be in effect until June 30, 2010. This agreement provides contribution time to teaching, contributions to a scholarship fund and a forestry development fund, and a net price for the purchase of the Grande Prairie Regional College deciduous harvest on the land that the Forestry program manages. Tolko will harvest up to 18,000 cubic meters of wood per year from the 25,000 hectare training forest.

On September 15, 2005, the college entered into a mortgage agreement with the Alberta Capital Finance Authority for $2,350,000 to complete construction on Phase 3 of Resources Place, a student residence facility. Construction on this building is expected to be completed during the 2005 – 2006 fiscal year.

Note 25 Contingency

The College, in the conduct of its normal activities, is a defendant in a number of legal proceedings. While the ultimate outcome of these proceedings cannot be predicted at this time, it is the opinion of the administration that adequate provision for these proceedings has been made in the College's accounts. It is believed that the resolution of the proceedings will not have a material effect on the financial position of the College, however, should any additional loss result from the resolution of these proceedings, such amounts would be expensed as the related amounts become known to the College.

Note 26 Approval of Financial Statements

These consolidated financial statements were approved by the Board of Governors.

GRANT MacEWAN COLLEGE
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Revenue and Expense

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Grant MacEwan College

I have audited the consolidated statement of financial position of Grant MacEwan College as at June 30, 2005 and the consolidated statements of revenue and expense, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Grant MacEwan College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 9, 2005

GRANT MacEWAN COLLEGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005

	2005	2004
ASSETS		
Current:		
Cash and temporary investments	$ 31,457,650	$ 16,228,241
Accounts receivable	2,259,728	2,312,326
Inventories (Note 3)	1,965,537	2,222,023
Prepaid expenses	883,546	552,506
	36,566,461	21,315,096
Investments (Note 4)	27,624,838	25,455,046
Capital assets (Note 5)	191,355,458	163,865,326
	$ 255,546,757	$ 210,635,468
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 17,077,159	$ 8,637,446
Accrued vacation pay	4,716,018	4,613,234
Unearned revenue (Note 6)	3,727,951	3,240,126
Deferred contributions (Note 7)	2,456,842	4,025,940
Current portion of long term debt (Note 9)	964,669	197,284
	28,942,639	20,714,030
Deferred capital contributions (Note 7)	3,552,091	2,168,509
Unamortized deferred capital contributions (Note 8)	90,941,211	94,351,412
Long term debt (Note 9)	45,928,716	14,893,385
	169,364,657	132,127,336
Net Assets:		
Endowments (Note 10)	12,248,806	11,256,677
Investment in capital assets	55,543,500	54,423,245
Internally restricted net assets (Note 14)	4,053,928	279,149
Unrestricted	14,335,866	12,549,061
	86,182,100	78,508,132
	$ 255,546,757	$ 210,635,468

The accompanying notes and schedules are part of these financial statements.

GRANT MacEWAN COLLEGE
CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE
FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Revenue		
Grants (Note 11)	$ 54,072,905	$ 51,798,289
Tuition and related fees	48,726,163	45,163,552
Sales, rentals and services	18,117,913	17,574,367
Amortization of deferred capital contributions (Note 8)	3,674,255	4,871,735
Contract programs	3,852,693	3,931,351
Donations	2,288,179	2,345,710
Investment earnings (Note 12)	2,784,066	1,779,849
	133,516,174	127,464,853
Expense		
Salaries and benefits (Note 15)	81,731,922	78,863,320
Supplies and services	24,845,683	21,197,893
Amortization of capital assets	8,325,998	9,313,262
Cost of goods sold	7,399,522	6,848,876
Utilities	3,195,060	3,309,242
Scholarships and bursaries	932,987	880,457
Interest on long term debt	366,812	384,559
	126,797,984	120,797,609
Excess of revenue over expense	$ 6,718,190	$ 6,667,244

The accompanying notes and schedules are part of these financial statements

GRANT MacEWAN COLLEGE
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	2005					2004
	Endowments (Note 10)	Investment in Capital Assets	Internally Restricted (Note 14)	Unrestricted	Total	Total
Excess of revenue over expense	$ -	$ -	$ -	$ 6,718,190	$ 6,718,190	$ 6,667,244
Endowment contributions	472,565				472,565	458,340
Transfers for:						
Endowments	483,216				483,216	214,640
Acquisition of internally funded capital assets		5,745,706		(5,745,706)	-	-
Repayment of debt related to capital assets		197,284		(197,284)	-	-
Amortization of internally funded capital assets		(4,651,743)		4,651,743	-	-
Disposal of internally funded assets		(170,992)		170,992	-	-
Net appropriations to restricted funds	36,347		3,774,779	(3,811,126)	-	-
Increase (decrease) in net assets	992,128	1,120,255	3,774,779	1,786,809	7,673,971	7,340,224
Net assets at beginning of year	11,256,677	54,423,245	279,149	12,549,061	78,508,132	71,167,908
Net assets at end of year	$ 12,248,805	$ 55,543,500	$ 4,053,928	$ 14,335,870	$ 86,182,103	$ 78,508,132

The accompanying notes and schedules are part of these financial statements

GRANT MacEWAN COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Operating activities:		
Excess of revenue over expense	$ 6,718,190	$ 6,667,244
Non-cash transactions:		
Amortization of capital assets	8,325,998	9,313,262
Loss on disposal of capital assets	163,360	142,870
Amortization of deferred capital contributions	(3,674,255)	(4,871,735)
	11,533,293	11,251,641
Change in non-cash working capital (Note 13)	4,369,406	(744,797)
Cash generated from operating activities	15,902,699	10,506,844
Investing activities:		
Acquisition of capital assets:		
Internally funded	(5,745,706)	(11,438,611)
Externally funded	(264,054)	(147,320)
Debt funded	(29,977,362)	(9,000,000)
Proceeds on disposal of capital assets	7,632	13,923
Acquisition of long term investments	(1,686,575)	(1,090,106)
Cash applied to investing activities	(37,666,065)	(21,662,114)
Financing activities:		
Endowment contributions	472,565	458,340
Capital asset contributions (Note 8)	264,054	147,320
Deferred capital contributions	1,383,582	379,296
Increase in construction payables	3,069,858	2,747,717
Increase in long-term debt	31,802,716	8,815,007
Cash generated from financing activities	36,992,775	12,547,680
Increase in cash and temporary investments	15,229,409	1,392,410
Cash and temporary investments, beginning of year	16,228,241	14,835,831
Cash and temporary investments, end of year	$ 31,457,650	$ 16,228,241

The accompanying notes and schedules are part of these financial statements

Note 1 Authority and Purpose

Grant MacEwan College (the "College") operates under the authority of *the Post Secondary Learning Act Chapter P-19.5, Statutes of Alberta 2003*. The College offers applied degree, diploma and certificate programs in arts and science, business, health and community studies, and performing, visual and communication arts. The College also offers first and second year university transfer programs in arts and science, physical education, nursing, engineering and commerce. Through its outreach activities, the College offers credit and non-credit courses in these programs on an outreach basis within greater Edmonton, and on brokerage and outreach basis to other areas of the Province, nationally and beyond.

The College is exempt under Section 149 of the *Income Tax Act* from payment of income taxes.

Note 2 Significant Accounting Policies and Reporting Practices

(a) General

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these statements requires the use of estimates, which may vary from actual results. The following accounting policies and reporting practices are considered significant.

(b) Consolidated Financial Statements

These consolidated financial statements include the accounts of the Grant MacEwan College Foundation, which operates under part 9 of the Companies Act of Alberta for the support and advancement of the College. The Foundation is a registered charity and is exempt from payment of income taxes.

(c) Revenue Recognition

Unrestricted contributions are recognized as revenue in the period they are receivable.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the conditions of the grant are met. Non-capital donations of materials and services that would otherwise have been purchased are accounted for as externally restricted non-capital contributions, and are recorded at fair value when a fair value can be reasonably estimated.

Externally restricted capital contributions are recorded as deferred contributions until the amount is invested in capital assets. Contributions for capital assets that will be amortized are transferred to unamortized deferred capital contributions in the period the asset is acquired. Contributions for capital assets that will not be amortized, such as land and art collections, are recorded as direct increases in net assets in the period the asset is acquired. Capital donations of assets that would otherwise be purchased are accounted for as externally restricted capital contributions, and are recorded at fair value when a fair value can be reasonably estimated.

Unamortized deferred capital contributions are recognized as revenue in the periods in which the related capital assets are amortized. The related portion of amortization expense and the deferred capital contributions revenue are matched to indicate how the related amortization expense has been funded. Unamortized deferred capital contributions relating to capital assets disposed of are recognized as revenue in the period of disposal, provided that all restrictions have been complied with.

Government grants are accounted for as unrestricted contributions or externally restricted contributions in accordance with the terms of funding.

Externally restricted contributions made for endowment purposes are not recognized as revenue, but are recorded as direct increases in net assets.

Investment earnings on unrestricted contributions are recognized as revenue when realized. Investment earnings on externally restricted endowments are recognized when the related expenditures have been incurred.

Amounts received for tuition fees, contract programs and sales, rentals and services are classified as unearned revenue and recognized as revenue in the period the goods are delivered or the services are provided.

(d) Valuation of Accounts Receivable, Accounts Payable and Accrued Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of accounts receivable, accounts payable, accrued liabilities, deferred revenue and holdbacks are estimated to approximate their carrying values.

(e) Investments

Investments are recorded at cost. Gains and losses on investments are recognized upon liquidation, or when there is other than temporary impairment in the value of an investment. The measurement of the value of the long term investments is contingent upon future events in the financial markets; therefore, the preparation of these statements requires the use of estimates, which may vary from actual results.

(f) Capital Assets

Capital asset acquisitions are recorded at cost, except donated assets which are recorded at fair market value. Land and art collections are not amortized.

Capital assets (including equipment under capital lease) are amortized on a straight-line basis over the following average useful lives:

Buildings and site improvements	10 to 40 years
Furniture, equipment and vehicles	10 years
Library materials	10 years
Computers and telecommunications equipment	5 years

(g) Inventories

Inventories for resale are valued at the lower of cost or net realizable value, with cost determined on a moving average basis.

(h) Pension Obligation and Expense

The College and its eligible employees participate in the Local Authorities Pension Plan which is a multi-employer defined benefit plan. The College records an expense for pension benefits equivalent to the annual contributions payable during the year. Accounting treatment for multi-employer pension plans is the same as for defined contribution plans and, therefore, no plan deficits or surplus' are recorded in the College accounts.

Note 3 Inventories

	2005	2004
Bookstores	$ 1,815,877	$ 2,046,784
Other inventories	149,660	175,239
	$ 1,965,537	$ 2,222,023

Note 4 Investments

(a) Temporary Investments

Temporary investments consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF) with the objective of providing competitive interest income to the depositors while maintaining maximum security and liquidity of depositors' capital.

(b) Long-Term Investments

	2005		2004
	Market Value	Cost	Adjusted Cost
Pooled Funds			
Common stocks and equivalents	$ 13,501,074	$ 13,407,094	$ 16,265,207
Fixed income securities	12,366,441	12,187,806	6,291,318
Cash and equivalents	1,061,280	1,061,280	1,998,667
Cash surrender value of planned gifts (life insurance policies)	620,735	620,735	581,545
Other	347,923	347,923	318,309
	$ 27,897,453	$ 27,624,838	$ 25,455,046

Investments are recorded at cost. "Adjusted Cost 2004" refers to the write down of common stocks in 2002/03 to reflect the impairment in value that were other than temporary.

Note 5 Capital Assets

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 22,960,846	$ -	$ 22,960,846	$ 22,765,730
Buildings and site improvements	156,286,331	(46,700,223)	109,586,108	113,735,733
Furniture, equipment and vehicles	18,274,041	(10,465,767)	7,808,274	7,298,099
Library materials	7,611,019	(4,641,462)	2,969,557	2,900,828
Computers and telecommunications equipment	22,120,191	(16,139,968)	5,980,223	6,329,456
Equipment under capital lease	272,947	(123,733)	149,214	192,885
Art collection	252,979	-	252,979	248,429
Projects in progress	41,648,257	-	41,648,257	10,394,166
	$ 269,426,611	$ (78,071,153)	$ 191,355,458	$ 163,865,326

Note 6 Unearned Revenue

	2005	2004
Contract programs & tuition fees	$ 2,792,399	$ 2,516,620
Program deposits	447,851	500,053
Ancillary services	487,701	223,453
	$ 3,727,951	$ 3,240,126

Note 7 Deferred Contributions

	2005	2004
Contributions received and receivable:		
Grants - Province of Alberta	$ 7,134,299	$ 9,633,810
Grants - Other	127,390	568,696
Donations	2,423,874	1,387,165
	9,685,563	11,589,671
Transferred to revenue:		
Grants:		
Grants - Province of Alberta (Note 11)	(8,384,966)	(7,481,969)
Grants - Other (Note 11)	(109,276)	(549,931)
Donations	(870,790)	(863,392)
Investment earnings (Note 12)	(241,995)	(64,011)
	(9,607,027)	(8,959,303)
Transferred to:		
Unamortized deferred capital contributions (Note 8)	(264,054)	(147,320)
Increase (decrease) during the year	(185,518)	2,483,048
Deferred contributions, beginning of year	6,194,449	3,711,401
Deferred contributions, end of year	$ 6,008,931	$ 6,194,449

The balance of deferred contributions is comprised of:

	2005	2004
Scholarships and bursaries	$ 347,927	$ 581,932
Program delivery	2,108,915	3,444,008
	2,456,842	4,025,940
Capital projects	3,552,091	2,168,509
	$ 6,008,933	$ 6,194,449

Note 8 Unamortized Deferred Capital Contributions

	2005	2004
Balance at beginning of year	$ 94,351,412	$ 99,075,827
Transferred from deferred contributions (Note 7)	264,054	147,320
Less amount amortized to revenue	(3,674,255)	(4,871,735)
Balance at end of year	$ 90,941,211	$ 94,351,412

Unamortized deferred capital contributions represent the external funding of capital assets which will be recognized as revenue in future periods.

Note 9 Long-term Debt

	2005	2004
Parkade debenture(a)	$ 5,762,056	$ 5,905,564
Capital lease (b)	131,330	185,106
Student residence debenture(c)	41,000,000	9,000,000
	46,893,386	15,090,670
Less: current portion	964,669	197,284
	$ 45,928,717	$ 14,893,386

(a) The College issued a debenture of $6,400,000 at the rate of 6.25% per annum to Alberta Capital Finance Authority on April 3, 2000 to finance the construction of a stand-alone parking facility at the City Centre Campus. The debenture matures on April 3, 2025. The debenture is secured by the future revenue of the parkade.

Repayment of the principal and interest is funded by revenues generated from the parkade. The repayment schedule for the next five fiscal years is as follows:

2006	$ 512,606
2007	512,606
2008	512,606
2009	512,606
2010	512,606
Total	$ 2,563,030

(b) The following is a schedule of future minimum payments under the capital lease expiring August 31, 2007 together with the balance of the obligation under capital lease.
The repayment schedule for the next three fiscal years is as follows:

2006	$ 65,760
2007	65,760
2008	11,118
Less: amount representing interest @7.453%	(11,308)
Total	$ 131,330

(c) The College issued a debenture of $41,000,000 to Alberta Capital Finance Authority on April 30, 2004 to finance the construction of a student residence building at City Centre Campus. The rate of interest is 2.5% per annum from June 15, 2004 to June 15, 2005, and 5.8485% thereafter. The debenture matures on June 15, 2030. The debenture is secured by future revenue of the student residence. The repayment schedule for the next five fiscal years is as follows:

2006	$ 3,141,283
2007	3,141,283
2008	3,141,283
2009	3,141,283
2010	3,141,283
Total	$ 15,706,415

Note 10 Endowments

	2005	2004
Endowments consist of funds held to provide scholarships and support College programs:		
Externally funded	$ 12,085,234	$ 11,576,472
Internally funded	784,408	784,257
	12,869,642	12,360,729
Transfer for endowments	(620,836)	(1,104,052)
	$ 12,248,806	$ 11,256,677

Note 11 Grants

	2005	2004
Province of Alberta		
Base operating grant	$ 45,578,663	$ 43,766,389
Earned conditional funding	8,384,966	7,481,969
	53,963,629	51,248,358
Earned conditional Government of Canada funding	109,276	549,931
	$ 54,072,905	$ 51,798,289

Note 12 Investment Earnings

	2005	2004
Gain on restricted endowments	$ 927,427	$ 587,405
Gain on unrestricted investments	2,097,860	1,343,073
Total investment gain income for the year	3,025,287	1,930,478
Gain charged to restricted endowments	(483,216)	(214,640)
Transfer from deferred contributions: to cover endowed scholarships/projects (Note 7)	241,995	64,011
Total investment income recognized as revenue	$ 2,784,066	$ 1,779,849

Note 13 Changes in Non-cash Working Capital

	2005	2004
Accounts receivable	$ 52,598	$ (146,289)
Inventories	256,486	(441,554)
Prepaid expenses	(331,041)	10,155
Accounts payable and accrued liabilities	5,369,852	(1,481,918)
Accrued vacation pay	102,784	218,387
Unearned revenue	487,824	(1,007,330)
Deferred contributions	(1,569,097)	2,103,752
	$ 4,369,406	$ (744,797)

Note 14 Internally Restricted Net Assets

The Board has committed operating net assets as follows:

	2005	2004
"Potential promise n growth" campaign	$ -	$ 230,859
Scholarships & bursaries	31,401	23,643
College projects	22,527	24,647
Emergency reserve	1,000,000	-
Residence start up	1,000,000	-
Technology infrastructure/network	2,000,000	-
	$ 4,053,928	$ 279,149

Note 15 Salary & Benefits Disclosure

	2005				2004
	Base Salary (1)	Other Cash Benefits (2)	Other Non-cash Benefits (3)	Total	Total
Chairman of the Board(formerly New Chairman	$ -	$ 6,270	$ 159	$ 6,429	$ 4,340
New Chairman of the Board	-	-	-	-	2,680
Board Members	-	32,968	233	33,201	30,798
President (4)	202,784	-	39,839	242,623	235,007
Executive/Vice Presidents:					
Vice President Resources	155,140	-	19,510	174,650	162,290
Executive Vice President Academic)	158,454	-	21,647	180,101	163,861
Vice President External Relations (a)	-	-	-	-	65,125
Vice President Student Services	129,135	-	15,766	144,901	120,772
Chief Technology Officer	117,832	11,527	15,296	144,655	114,146
Executive Director, Academic Affairs	-	-	-	-	137,613
Executive Director, Human Resources	115,112	-	34,980	150,092	120,940
Executive Director, Strategic Planning	111,879	-	15,520	127,399	117,927
Chief Financial Officer	137,484	-	17,204	154,688	144,227

Prepared in accordance with Treasury Board Directive 03/2004

(1) Base salary includes pensionable base pay.

(2) Other cash benefits includes bonuses, overtime, lump sum payments, honoraria and vacation payouts.

(3) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, out-of-country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short-term disability plan, professional memberships and tuition. Other non-cash benefits figure also includes the employer's share of the cost of additional benefits including sabbaticals or other special leave with pay, financial planning services, retirement services, concessionary loans, travel allowances, car allowances, and club memberships.

(4) The College provides an automobile, the value of which is included in other non-cash benefit figures.

(a) This position has been vacant since December 31, 2003

The College contributed $3,304,936, (2004: $3,258,874) to the Local Authorities' Pension Plan on behalf of employees. This amount has been recognized as a benefit expense in the College accounts in the year the contributions were made.

Note 16 Related Party Transactions

The College is a Provincial Corporation as all of the members of the Board of Governors are appointed either by the Post Secondary Learning Act or by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education.

During 2005, the College provided courses to provincial government departments and participated in offering certain courses with other post-secondary institutions. The revenues and expenses incurred for these courses have been included in the consolidated statement of revenue and expense but have not been separately quantified. These transactions were entered into on the same business terms as with non-related parties and are recorded at these fair value amounts. Transactions with the Province of Alberta are disclosed in Note 11 to these financial statements.

At June 30, 2005 the College had unspent funds of $877,842 (2004: $2,392,562) which were received from the Province of Alberta for capital and non-capital projects. These amounts are classified as deferred contributions and are required to be spent on capital and non-capital projects as agreed upon between the College and the Province.

At June 30, 2005 the accounts receivable balance included an amount of $0 (2004: $282,420) owing from the Province of Alberta for projects completed.

Note 17 Budget

The Board of Governors approved the following budget relating to the College's operating revenue and expenses for the fiscal period ending June 30, 2005 on April 15, 2004:

Revenue	
Grants	$ 51,652,936
Tuition and related fees	46,276,557
Private Contracts	3,722,501
Sales, rentals and services	19,209,559
Amortization of deferred capital contributions	4,200,000
Investment earnings	1,272,000
Total Revenue	$ 126,333,553

Expense	
Salaries and benefits	$ 84,061,223
Supplies and services	21,427,726
Amortization of capital assets	7,750,000
Cost of goods sold	8,728,725
Utilities	3,853,174
Scholarships and bursaries	57,100
Interest on long term debt	369,097
Total Expense	126,247,045
Excess of Revenue over Expense	$ 86,508

Note 18 Commitments

The College is committed to several operating lease contracts. The minimum operating lease payments required for the next five years are as follows:

	2006	$ 488,550
	2007	284,310
	2008	201,140
	2009	79,859
	2010	67,819
Total		$ 1,121,678

The Board of Governors of the College has approved a capital project to design and build a Student residence. The amount approved was $41,000,000. At June 30, 2005, approximately $3,522,638 of expenditure are yet to be incurred.

Note19 Contingent Liabilities

The College is a defendant in a number of legal proceedings. Claims against the College in these proceedings have not been reflected in these financial statements. While the ultimate outcome and liability of these proceedings cannot be reasonably estimated at this time, the College believes that any settlement will not have a material adverse effect on the financial position or the results of operations of the College.

Note 20 Approval of Financial Statements

These financial statements were approved by the Board of Governors on October 6, 2005.

KEYANO COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2005

Auditor's Report

Statement of Financial Position

Statement of Revenue and Expense

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Keyano College

I have audited the statement of financial position of Keyano College as at June 30, 2005 and the statements of revenue and expense, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn FCA
Auditor General

Edmonton, Alberta
August 31, 2005

KEYANO COLLEGE
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2005

ASSETS	2005	2004
Current:		
Cash (Note 3)	$ 1,401,694	$ 2,073,629
Short-term investments (Note 4)	893,823	83,323
Accounts receivable	1,918,487	1,390,566
Inventories (Note 5)	139,549	158,030
Prepaid expenses	210,866	179,229
	4,564,419	3,884,777
Long-term investments (Note 4)	8,187,122	8,459,067
Long-term accounts receivable (Note 6)	80,620	80,620
Tangible capital assets (Note 7)	61,167,867	60,870,744
	$ 74,000,028	$ 73,295,208

LIABILITIES AND NET ASSETS	2005	2004
Current:		
Accounts payable and accrued liabilities	$ 1,224,478	$ 2,216,668
Accrued vacation pay	1,656,675	1,583,441
Unearned revenue (Note 8)	704,277	655,010
Long-term debt due within one year (Note 11)	293,247	193,903
Deferred contributions (Note 9)	1,437,131	2,819,797
	5,315,808	7,468,819
Long-term:		
Long-term debt (Note 11)	6,019,863	5,281,363
Deferred contribution for capital purpose	1,136,421	-
Unamortized deferred capital contributions (Note 12)	31,438,627	32,137,266
	38,594,911	37,418,629
Net assets:		
Endowments (Note 13)	1,252,523	1,158,189
Investment in tangible capital assets (Note 14)	23,431,163	23,258,212
Unrestricted net assets	5,405,623	3,991,359
	30,089,309	28,407,760
	$ 74,000,028	$ 73,295,208

The accompanying notes are part of these financial statements.

KEYANO COLLEGE
STATEMENT OF REVENUE AND EXPENSE
FOR THE YEAR ENDED JUNE 30, 2005

	2005 Budget (Note 15)	2005 Actual	2004 Actual
Revenue:			
Grants (Note 23)	$ 22,485,927	$ 22,596,622	$ 21,364,094
Sales, rentals and services	4,910,486	4,883,366	5,032,614
Tuition	5,179,301	5,871,981	5,066,650
Education contracts	792,441	1,150,889	1,018,657
Investment income (Note 4)	247,385	415,014	1,154,036
Donations	723,500	805,156	595,148
Amortization of deferred capital contributions (Note 12)	1,842,705	1,934,435	1,878,770
	36,181,745	37,657,463	36,109,969
Expense:			
Salaries and benefits	22,899,568	22,662,815	22,233,985
Supplies and services	7,080,562	6,705,325	6,058,033
Scholarships and awards	326,931	498,106	421,215
Utilities	1,889,239	1,475,899	1,923,027
Cost of goods sold	510,433	645,379	645,225
Amortization	3,205,828	3,315,848	3,294,616
Interest on long-term debt	361,223	348,673	367,496
Loss on disposal of tangible capital assets	-	60,225	21,629
Transfer to Keyano Foundation (Note 23)	205,455	357,978	229,768
	36,479,239	36,070,248	35,194,994
Excess (deficiency) of revenue over expense	$ (297,494)	$ 1,587,215	$ 914,975

The accompanying notes are part of these financial statements.

KEYANO COLLEGE
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	2005				2004
	Endowments (Note 13)	Investment in Tangible Capital Assets (Note 14)	Unrestricted Net Assets	Total	Total
Beginning of year	$ 1,158,189	$ 23,258,212	$ 3,991,359	$ 28,407,760	$ 27,526,161
Excess (deficiency) of revenue over expense	-	-	1,587,215	1,587,215	914,975
Endowments received (withdrawn)	94,334	-	-	94,334	(33,376)
Tangible capital assets acquired from internal funds		1,428,356	(1,428,356)	-	-
Amortization of internally funded tangible capital assets		(1,381,413)	1,381,413	-	-
Net book value of disposals		(74,245)	74,245	-	-
Principal repayment of long-term debt		119,170	(119,170)	-	-
Repayment of capital lease obligations		81,083	(81,083)	-	-
	$ 1,252,523	$ 23,431,163	$ 5,405,623	$ 30,089,309	$ 28,407,760

The accompanying notes are part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Cash provided from operating activities:		
Excess (deficiency) of revenue over expense	$ 1,587,215	$ 914,975
Non-cash transactions:		
Amortization of tangible capital assets	3,315,848	3,294,616
Amortization of deferred capital contributions	(1,934,435)	(1,878,770)
Loss on disposal of tangible capital assets	60,226	21,629
	3,028,854	2,352,450
Changes in non-cash working capital (Note 19)	(3,603,931)	928,508
Cash generated from (used in) operating activities	(575,077)	3,280,958
Cash provided from (used in) investing activities:		
Purchases of tangible capital assets:		
Internally funded	(1,428,356)	(692,055)
Externally funded through contributions and debt	(2,258,860)	(291,648)
Proceeds on disposals of tangible capital assets	14,020	13,946
Purchases (disposal) of long term investments - net	271,945	(838,346)
Cash used in investing activities	(3,401,251)	(1,808,103)
Cash provided from (used in)financing activities:		
Capital contributions received	2,372,216	265,668
Endowment contributions (withdrawals) - net	94,334	(33,376)
Long-term debt repayment - net	837,844	(155,235)
Cash generated from financing activities	3,304,394	77,057
Increase (decrease) in cash	(671,934)	1,549,911
Cash at beginning of year	2,073,628	523,717
Cash at end of year	$ 1,401,694	$ 2,073,628

The accompanying notes are part of these financial statements.

KEYANO COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 Authority and Purpose

Keyano College operates under the authority of the Post-secondary Learning Act, Statutes of Alberta 2003, Chapter P-19.5. The College is a comprehensive community college serving primarily the north-eastern region of Alberta. The College is exempt from payment of income tax under Section 149 of the Income Tax Act.

Note 2 Summaries of Significant Accounting Policies and Reporting Practices

(a) General

The financial statements of the College have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results.

(b) Revenue Recognition

Operating grants are recognized as revenue in the period when receivable. Operating grants received for a future period are deferred until that future period and are reflected as deferred contributions.

Amounts received for tuition fees and sales of goods and services are recognized as revenue at the time the goods are delivered or the services are provided.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by the contributors. Any externally restricted contributions containing stipulations that the amounts should be retained as net assets or that the contributions should not be expended are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property. Investment income earned on external endowments is recorded as a direct increase in net assets where the donor has stipulated that the economic value of endowments must be protected.

Externally restricted capital contributions are recorded as deferred contributions until the amount is invested to acquire tangible capital assets. Amounts invested representing externally funded tangible capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded tangible capital asset is recorded.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Revenue Recognition (continued)

Contributions of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

(c) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at the lower of cost and replacement value.

(d) Investments

Short-term investments are recorded at the lower of cost and market value.

Long-term investments are recorded at cost. Gains or losses on long-term investments are recognized at liquidation or when the impairment in the value of an investment is other than temporary.

(e) Tangible Capital Assets

Tangible capital asset acquisitions are recorded at cost except for donated assets, which are recorded at fair market value at the time of receipt. Tangible capital assets are amortized on a straight-line basis over the following estimated average useful lives:

	Years
Land improvements	40
Buildings and renovations	40
Furnishings and equipment	10-25
Automotive and heavy equipment	5-25
Library materials	10
Audio-visual equipment	10
Computer hardware and software	5-10

(f) Employee Future Benefits

The College participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provides pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates that are expected to provide for benefits payable under the pension plan. The College does not record the College's portion of the pension plan's deficit.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(g) Expenses

Instruction encompasses all formal educational and instructional program elements. Institutional support includes all activities that provide institution-wide support to other programs. Academic support includes all activities that directly support the educational and instructional elements such as academic administration, library and audio-visual services. Student services include all activities or services to the student body of the institution including scholarships and bursaries.

(h) Translation of Foreign Currencies

Monetary assets are translated into Canadian dollars at the rate of exchange at Statement of Financial Position date. Non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at the rate of exchange in effect on the dates they occur.

Note 3 Cash

At June 30, 2005, the College had an available line of credit totaling $1,000,000, none of which was drawn, which bears interest at Royal bank prime plus 0.25%.

Note 4 Investments

	2005				2004
	Short-term Investments	Long-term Investments	Total Cost	Market Value	Total Cost
Money market investments	$ 893,823	-	893,823	893,823	$ 83,323
Bonds		4,546,132	4,546,132	4,683,311	4,575,249
Equities	-	3,640,990	3,640,990	4,033,331	3,883,818
	$ 893,823	8,187,122	9,080,945	9,610,465	$ 8,542,390

As at June 30, 2005, $1,252,523 (2004 - $1,158,189) is restricted for endowment purposes.

Note 4 Investments (continued)

The Board of Governors has approved investment policies covering both short and long-term investments of the College and the Sports and Wellness Centre.

The investment policy is as follows:

a) Quality constraint of "R1 or A1" or better for money market securities.
b) All corporate and provincial bonds will be rated "A" or higher, with the exception of the portfolio manager having discretion to purchase "BBB" rated securities up to a maximum of 15% of the market value of the fixed income component.
c) No more than 10% of cash and equivalents will be invested in any one issuer, other than investments guaranteed by the Government of Canada or any province.
d) No more than 5% of the portfolio will be invested in any one corporate bond issue.
e) The fixed income category of the portfolio shall be a minimum of 40% and a maximum of 60% of the portfolio.
f) The equity category of the portfolio shall be a minimum of 40% and a maximum of 50% of the portfolio.
g) No more than a maximum of 10% of the equity component, at market, will be invested in any one equity issue.

Investment policy for the Sports and Wellness Centre is as follows:

Given the short-term nature of the account, the portfolio will be invested in money market securities and short-term bonds.

a) Money market category of the portfolio shall be a minimum of 50% and a maximum of 100% of the portfolio.
b) Short-term bonds shall be a maximum of 30% of the portfolio.
c) The Money Market Fund will invest in money market securities that are rated "R-1 mid" or better, as rated by the Dominion Bond Rating Service or Standard and Poor's Rating Service, with a 10% provision for "R-1 low" rated paper. The Fund's short-term bond holdings will include investment grade issues with at least an "A" rating from one of the major rating agencies.
d) The Short-term Bond Fund will invest in investment grade bonds and "R-1" rated money market instruments, as rated by the Dominion Bond Rating Service or "A-1" by Standard & Poor's Rating Service. However, the fund will have a maximum exposure of 20% in "BBB" rated bonds or "R-1 low" rated paper.

The portion of the investments related to the Sports and Wellness Centre totaled $1,143,942 at June 30, 2005.

Note 4 Investments (continued)

The effective yield for the portfolio on the bond investment is 3.90 % (2004 – 4.85%). The bond investments mature as follows:

	1 – 5 years	6 – 10 years	Over 10 years	Total
Bonds	$ 1,341,109	$ 2,423,088	$ 781,935	$ 4,546,132

Investment Income	2005	2004
Interest earned on investments	$ 423,118	$ 1,317,892
Interest earned on operating funds	59,404	42,405
Total interest earned	482,522	1,360,297
Transferred to deferred contributions (Note 9)	(67,508)	(206,261)
	$ 415,014	$ 1,154,036

Note 5 Inventories

	2005	2004
Bookstore	$ 104,693	$ 121,590
Maintenance supplies	34,856	36,440
	$ 139,549	$ 158,030

Note 6 Long-term Accounts Receivable

The College entered into an agreement to allow corporations to rent certain student residences for a period of five years. The long-term account receivable is GST that is recoverable from the Federal Government once these residences revert to College student use.

Note 7 Tangible Capital Assets

Tangible capital assets are summarized as follows:

	2005			2004
	Cost and Appraised Value	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 12,779,392	$ -	$ 12,779,392	$ 11,679,586
Land improvements	463,183	46,318	416,865	428,444
Buildings and renovations	72,628,878	34,301,177	38,327,701	40,088,470
Furnishings and equipment	9,534,057	4,758,963	4,775,094	4,293,243
Automotive and heavy equipment	6,433,641	4,158,407	2,275,233	2,504,533
Library materials	2,017,943	1,745,269	272,674	287,089
Audio-visual equipment	917,685	558,295	359,389	394,321
Computer hardware and software	4,975,940	3,014,421	1,961,519	1,195,058
	$ 109,750,718	$ 48,582,851	$ 61,167,867	$ 60,870,744

The Province of Alberta has been granted an option to purchase the whole or any part of the land, buildings and improvements transferred to the College in 1984, at a value of $47,534,300, for the nominal amount of $1 per purchase.

Note 8 Unearned Revenue

	2005	2004
Tuition fees	$ 255,075	$ 274,082
Contract programs	449,202	380,928
	$ 704,277	$ 655,010

Note 9 Deferred Contributions

Deferred contributions represent unspent amounts externally restricted for non-capital purposes.

	2005	2004
Contributions:		
Grants	$ 2,845,662	$ 2,758,648
Donations	351,037	231,141
Investment income (Note 4)	67,508	206,261
	3,264,207	3,196,050
Transferred to revenue:		
Grants	(2,706,323)	(2,054,186)
Donations and investment income	(318,029)	(247,676)
	(3,024,352)	(2,301,862)
Transferred to deferred contributions for capital purposes (Note 10)	(500,000)	-
Transferred to UDCC (Note 12)	(1,028,187)	(100,568)
Transferred from (to) endowments	(94,334)	33,376
	(1,622,521)	(67,192)
Increase (decrease) during the year	(1,382,666)	826,996
Balance at beginning of year	2,819,797	1,992,801
Balance at end of year	$ 1,437,131	$ 2,819,797
The balance consists of funds restricted for:		
Scholarships and bursaries	$ 442,723	$ 436,541
New program start-up funds	621,657	546,654
Deferred contributions for maintenance	372,751	1,836,602
	$ 1,437,131	$ 2,819,797

Note 10 Deferred Contributions for Capital Purposes

	2005	2004
Contributions:		
Grants (Note 9)	$ 500,000	$ 100,568
Donations	844,030	165,100
	1,344,030	265,668
Transferred to unamortized deferred capital contributions (Note 12)	(207,609)	(265,668)
Increase (decrease) during the year	1,136,421	-
Balance, beginning of year	-	-
Balance, end of year	$ 1,136,421	$ -

Note 11 Long-term Debt

	2005	2004
Alberta Capital Finance Authority		
Debenture, interest at 6.5% per annum. Repayment of 25 consecutive annual installments of $450,898, principal and interest combined, secured by tangible capital assets with a net book value of $5,640,764. Maturity June 2026	5,088,378	5,201,198
Obligations under Capital Lease Interest at varying rates of 1.5% to 8.9%. Payments Maturity ranging from October 2005 to July 2008	192,984	274,068
Ford Credit Interest at 0%, repayment of $634 per month secured by related asset with a net book value of $32,745 Maturity August 2009	31,748	-
Alberta Capital Finance Authority Debenture, interest at 4.26% per annum. Repayment of 20 consecutive semi-annual installments of $61,939, principal and interest combined, secured by tangible capital assets with a net book value of $984,967. Maturity March 2015	$ 1,000,000	
	6,313,110	5,475,266
Current portion	293,247	193,903
	$ 6,019,863	$ 5,281,363

Repayment of principal in each of the next five fiscal years will be as follows:

2006	$ 293,247
2007	303,810
2008	258,717
2009	247,494
2010	253,041

Note 11 Long-term Debt (continued)

All acquired intangibles, accounts, monies, accounts receivable, instruments, claims or rights, choices in action and insurance proceeds derived directly or indirectly from the operations of the student residence have been pledged as security on the Alberta Capital Finance Authority debenture.

Long-term debt is subject to certain covenants with respect to loan payments, property tax payments, and certain contract restrictions. As at June 30, 2005, the College is in compliance with all such covenants. It is management's opinion that the College is likely to remain in compliance with all long-term debt covenants throughout the next 12 months subsequent to June 30, 2005

Note 12 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the external funding of tangible capital assets which will be recognized as revenue in future periods.

	2005	2004
Balance at beginning of year	$ 32,137,266	$ 33,750,368
Add amount transferred		
Deferred contribution (Note 9)	$ 1,028,187	-
Deferred contribution for capital purpose (Note 10)	207,609	265,668
Less amount amortized to revenue	(1,934,435)	(1,878,770)
Balance at end of year	$ 31,438,627	$ 32,137,266

Note 13 Endowments

Endowments are comprised of externally restricted amounts that are required to be maintained intact.

Note 14 Investments in Tangible Capital Assets

		2005	2004
Tangible capital assets		$ 61,167,867	$ 60,870,744
Less	Debt	(6,298,077)	(5,475,266)
	Unamortized deferred capital contributions (note 12)	(31,438,627)	(32,137,266)
Balance at end of year		$ 23,431,163	$ 23,258,212

Note 15 Budget

The budget was approved by the Board of Governors on April 28, 2004.

Note 16 Funds Held on Behalf of Others

As of June 30, 2005, the College had $262,630 (2004 - $27,984) in funds held in trust for other parties. These amounts are not included in these financial statements.

Note 17 Ancillary Operations

The College's ancillary operations revenue included in sales, rentals and services and ancillary operations direct expense are summarized as follows:

	2005	2004
Revenue:		
Student residence	$ 1,881,592	$ 1,786,557
Food services facility rental contract	32,309	32,466
Bookstore	686,057	694,777
Theatre	687,864	571,701
Parking	195,877	208,872
	$ 3,483,699	$ 3,294,373
Expense:		
Student residence	$ 1,246,090	$ 1,212,116
Food services facility rental contract	127	3,437
Bookstore	694,544	684,773
Theatre	1,033,875	928,054
Parking	123,540	102,905
	$ 3,098,176	$ 2,931,285

Note 18 Salaries and Benefits

	(Note 1)	(Note 2)	(Note 3)	Total	Total
Board Chairman	$ -	$ 4,510	$ 174	$ 4,684	$ 4,675
Board members - 10	-	25,174	717	25,891	23,464
President	130,000	-	23,547	153,547	139,880
Vice President - Instruction	109,108	-	22,693	131,801	123,234
Vice President - Finance and Administration	109,108	-	36,146	145,254	106,207
Project Manager (MIS)	102,098	-	14,458	116,556	108,620
Director, Finance	92,505	-	13,669	106,174	102,541
Director, Campus Development	92,505	-	13,669	106,174	100,065

Notes:

1. Salary includes pensionable regular base pay.

2. Other cash benefits include honoraria.

3. Employer share of all employee benefits and contributions or payments made on behalf of employees including pension, automobile allowances, health care, dental, vision, and group life insurance, accidental death dismemberment insurance and other allowances.

Note 19 Changes in Non-Cash Working Capital

	2005	2004
Short-term investments	$ (810,500)	$ (83,323)
Accounts receivable	(527,921)	(230,864)
Inventories	18,482	26,745
Prepaid expenses	(31,637)	(52,949)
Accounts payable and accrued liabilities	(992,189)	381,928
Accrued vacation pay	73,234	(123,195)
Unearned revenue	49,266	183,170
Deferred contributions	(1,382,666)	826,996
	$ (3,603,931)	$ 928,508

Note 20 Commitments and Contractual Obligations

Minimum annual operating lease commitments required under the terms of various office space leases are as follows:

2006		90,822
Total	$	90,822

Note 21 Pension Costs

The pension expense recorded in these financial statements is equivalent to the College's annual contributions payable of $1,255,808 for the year ended June 30, 2005 (2004 - $1,065,756). At December 31, 2004, the Local Authorities Pension Plan reported a deficit of $1,288,924,000 (2003 – deficit of $1,453,487,000). January 1, 2004, the employers' contribution rates were increased further on January 1, 2004 by 1.077%.

Note 22 Financial Instruments

The College as part of its operations carries a number of financial instruments. It is management's opinion that the College is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed. The carrying amounts of accounts receivable, accounts payable, accrued liabilities, vacation pay, and current portion of long-term debt approximate their fair value due to the short-term maturities and market interest rates of these items.

The fair values of the College's investments are based on cash surrender value, and described in Note 4.

The carrying value of the College's long-term debt approximates its fair value, as there have been no significant changes in lending rates or other conditions.

Note 23 Related Party Transactions

(a) Related Party Transactions – Keyano College Foundation ("the Foundation")

The Keyano College Foundation is a registered charitable organization, and receives donations from various sources for the advancement of Keyano College.

The Foundation financial statements (which are prepared using the Restricted Fund method of revenue recognition) are not consolidated in the College's financial statements. The financial summaries of the unconsolidated entity as at June 30, 2005 and 2004 are as follows:

	2005	2004
Financial Position		
Total assets	$ 3,742,355	$ 3,183,234
Total liabilities	$ 20,919	$ 105,339
Net assets	$ 3,721,436	$ 3,077,895

All of the Foundation's net assets must be provided to the College or used for the College's benefit. As at June 30, 2005, $3,313,348 (2004 - $2,854,169) of the Foundation's net assets are restricted for College programs.

	2005	2004
Results of Operations		
Revenue	$ 2,743,687	$ 4,039,951
Expenses	$ 2,100,146	1,711,838
Excess of revenue over expenses	$ 643,541	$ 2,328,113

Total expenses include contributions of $1,498,065 (2004 – $1,013,725) to the College.

Cash Flows	2005	2004
Cash from operations and increase in cash	$ 84,394	$ 189,850

Note 23 Related Party Transactions (continued)

Total revenue includes contributions from the College of $357,978 (2004 - $229,768) toward salaries and other operating costs of the Foundation. In addition, the College provided certain administrative services and accommodations at no cost to the Foundation.

(b) The College is a provincial corporation as all the members of the Board of Governors are appointed either by the College Act or by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education.

(c) Transactions between the College and Province are included in the following balances as at June 30, 2005.

	Revenue	Deferred contributions	Unamortized Deferred Capital Contributions
Operating grant	$ 19,890,300	$ -	$ -
Conditional grant	332,360	20,588	-
Infrastructure grant	762,057	372,751	898,644
Access grant	940,288	76,111	23,541
Apprenticeship grant	157,930	229,760	44,043
Other grants	513,687	295,197	61,960
Total	$ 22,596,622	$ 994,407	$ 1,028,188

Note 24 Contingent Liabilities

The College, in conduct of its normal activities, is a defendant in a legal proceeding. While the ultimate outcome of this proceeding cannot be predicted at this time, it is the opinion of the management that adequate provision for this proceeding has been made in the College's accounts. It is believed that the resolution of the proceeding will not have a material effect on the financial position of the College, however, should any additional loss result from the resolution of this proceeding, such amounts would be expensed as the related amounts become known to the College.

Note 25 Approval of Financial Statements

The Board of Governors approved these financial statements.

Lakeland College

Financial Statements

June 30, 2005

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Lakeland College

I have audited the statement of financial position of Lakeland College as at June 30, 2005 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 30, 2005

LAKELAND COLLEGE

STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2005

	2005	2004
ASSETS		
Cash and short-term investments (Note 5)	$ 2,529,951	$ 859,032
Accounts receivable & Prepaids	2,406,105	1,892,295
Inventories (Note 3)	875,836	999,445
Current portion of loans receivable (Note 4)	3,467	6,516
	5,815,359	3,757,288
Loans receivable (Note 4)	-	4,135
Investments (Note 5)	4,264,096	5,576,232
Patronage dividends receivable	12,817	7,222
Capital assets (Note 6)	58,150,425	61,299,653
	$ 68,242,697	$ 70,644,530
LIABILITIES AND NET ASSETS		
Accrued vacation pay	$ 1,686,144	$ 1,772,640
Accounts payable and accrued liabilities	3,268,560	1,717,783
Unearned revenue (Note 7)	1,149,841	1,149,792
Deferred contributions (Note 8)	1,865,608	2,190,020
Current portion of long-term debt (Note 11)	331,804	847,973
	8,301,957	7,678,208
Deferred capital contributions (Note 9)	521,879	436,525
Unamortized deferred capital contributions (Note 10)	42,658,400	44,789,691
Long-term debt (Note 11)	2,555,209	2,856,526
	54,037,445	55,760,950
Net assets:		
Unrestricted	(88,505)	-
Internally restricted (Note 12)	-	523,814
Invested in capital assets	12,605,012	12,820,059
	12,516,507	13,343,873
Endowments (Note 13)	1,688,745	1,539,707
	14,205,252	14,883,580
	$ 68,242,697	$ 70,644,530

The accompanying notes are part of these consolidated financial statements.

LAKELAND COLLEGE

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2005

	2005		2004
	Budget (Note 19)	Actual	Actual
Revenue:			
Grants (Note 14)	$ 21,775,691	$ 22,807,252	$ 22,017,593
Tuition and related fees	11,747,119	11,177,624	10,408,806
Sales, rentals and services (Note 15)	4,698,432	4,514,590	4,450,307
Amortization of deferred capital contributions (Note 10)	2,510,000	2,416,063	2,495,834
Contract revenue	1,892,036	2,280,546	2,215,350
Investment income (Note 16)	409,600	548,095	1,049,432
Donations	147,000	146,330	211,255
Other	1,326,057	1,618,753	1,110,762
Gain on disposal of assets	-	-	17,637
	44,505,935	45,509,253	43,976,976
Expense (Note 17):			
Salaries and benefits (Note 18)	25,337,952	25,939,392	25,526,956
Supplies and services	11,593,653	11,687,450	11,905,100
Amortization of capital assets	4,814,804	4,725,410	4,689,958
Utilities	2,009,757	1,949,754	1,995,624
Severance payments	-	1,475,991	189,723
Interest expense	300,180	277,918	308,279
Scholarships and bursaries	200,000	238,833	181,862
Loss on disposal of assets	-	41,871	-
	44,256,346	46,336,619	44,797,502
Excess of (expense over revenue) revenue over expense	$ 249,589	$ (827,366)	$ (820,526)

The accompanying notes are part of these consolidated financial statements.

LAKELAND COLLEGE

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2005

	2005					2004
	Unrestricted	Internally Restricted (Note 12)	Invested in Capital Assets	Endowments	Total	Total
Excess of expense over revenue	$ (827,366)	$ -	$ -	$ -	$ (827,366)	$ (820,526)
Endowment contributions	-			149,038	149,038	198,818
Transfers:					-	-
Amortization of internally funded capital assets	2,309,347		(2,309,347)		-	-
Acquisition of internally funded capital assets	(1,400,917)		1,400,917		-	-
Disposal of internally funded					-	-
Repayment of Loans	(802,890)		802,890		-	-
From internally restricted	523,814	(523,814)			-	-
Net book value of capital asset disposals	109,507		(109,507)		-	-
(Decrease) increase in assets	(88,505)	(523,814)	(215,047)	149,038	(678,328)	(621,708)
Net assets beginning of year	-	523,814	12,820,059	1,539,707	14,883,580	15,505,288
Net assets at end of year	$ (88,505)	$ -	$ 12,605,012	$ 1,688,745	$ 14,205,252	$ 14,883,580

LAKELAND COLLEGE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
OPERATING ACTIVITIES		
Deficiency of expense over revenue	$ (827,366)	$ (820,526)
Non-cash transactions		
Amortization of capital assets	4,725,410	4,689,958
Amortization of deferred capital contributions (Note 10)	(2,416,063)	(2,495,834)
Loss (Gain) on disposal of capital assets	41,871	(17,637)
(Increase) Decrease in patronage dividends receivable	(5,595)	970
	1,518,257	1,356,931
Net change in non-cash working capital	749,717	300,625
Cash provided by operating activities	2,267,974	1,657,556
INVESTING ACTIVITIES		
Acquisition of capital assets		
Internally and debt funded	(1,400,917)	(2,964,970)
Externally funded	(284,772)	(591,986)
Loans collected from employees	-	16,324
Loans advanced to employees	-	(13,363)
Decrease in investments	1,312,136	132,695
Proceeds from disposal of capital assets	67,635	57,280
Cash (used in) investing activities	(305,918)	(3,364,020)
FINANCING ACTIVITIES		
Endowment contributions	149,038	198,818
Proceeds from computer loan program	7,184	982
Repayment of long-term debt	(802,890)	(456,717)
Repayment of long-term debt on employee computer loan	(14,595)	
Capital contributions received (Note 9)	370,126	577,349
Cash (used in) provided by financing activities	(291,137)	320,432
INCREASE (DECREASE) IN CASH AND INVESTMENTS	1,670,919	(1,386,032)
CASH AND INVESTMENTS AT BEGINNING OF THE YEAR	859,032	2,245,064
CASH AND INVESTMENTS AT END OF THE YEAR	$ 2,529,951	$ 859,032

The accompanying notes are part of these consolidated financial statements.

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Note 1 Authority and Purpose

Lakeland College (the "College") operates under the authority of the Post Secondary Learning Act, Chapter P-19.5., Statutes of Alberta, 2003. The College, as an inter-provincial institution, provides quality educational services responsive to the needs of students in relation to the workplace, community and society. The College is exempt from the payment of income taxes under section 149 of the Income Tax Act and is a registered charity.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Revenue Recognition

Operating grants are recognized in the period when receivable. Operating grants received for a future period are deferred until that future period and are reported as deferred contributions.

Amounts received for tuition fees and the sale of goods and services are recognized as revenue at the time the goods are delivered or the services are provided.

Capital grants and capital donations are recorded as deferred capital contributions until the amounts are invested in capital assets. Amounts invested representing funded capital assets are transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense for the funded capital assets is recorded.

Unrestricted cash donations are recognized as revenue when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by the contributors. Any externally restricted contributions containing stipulations that the amounts should be permanently maintained, are recorded as a direct increase to net assets.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

b) Capital Assets

Purchased capital assets are recorded at cost. Donated assets are recorded at their fair value when donated. Capital assets are amortized on a straight-line basis over the following estimated average useful lives:

Buildings and site improvements	3 - 40 years
Leasehold improvements	30 - 32 years
Furniture, equipment and library	10 years
Vehicles, computers and telecommunication equipment	5 years

(c) Inventories

Livestock inventory is recorded at net realizable value. All other inventories are valued at the lower of cost and net realizable value.

(d) Employee Future Benefits

The College participates in the Province of Alberta's Local Authority and the Management Employees Pension Plans. These pension plans are multi-employer defined benefit plans that provide pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the Local Authority and the Management Employees Pension Plans. The College's portion of the pension plans' deficit or surplus is not recorded by the College.

(e) Financial Instruments

The carrying value of cash, receivables and payables, and accruals approximate fair value due to the relatively short periods to maturity of the instruments.

(f) Investments

Short-term investments are carried at the lower of cost or market value.
Long-term investments are recorded at cost unless there is an other than temporary impairment in the value of the investment.

(g) Pledges Receivable

Pledges receivable are not recorded as assets in these financial statements.

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Note 3 **Inventories**

Inventories consist of:

	2005	2004
Livestock	$ 275,425	$ 279,172
Bookstore	389,065	393,217
Firefighting agents	53,189	75,398
Fuels	49,974	41,772
Course guides	20,153	56,624
Farm	87,578	87,640
Clothes & gifts	-	61,193
Quip shop	452	4,429
	$ 875,836	$ 999,445

Note 4 **Loans Receivable**

	2005	2004
Employee loans receivable	$ 3,467	$ 10,651
Less: current portion	(3,467)	(6,516)
	$ -	$ 4,135

The loans are receivable from employees in bi-weekly installments of $675 in 2004 ($675 in 2003) including interest at a rate of 8.5% per annum. The advances were made under the provisions of an employee computer purchase program with installments made through payroll deductions.

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Note 5 **Cash and Investments**

	2005		2004	
	Cost	Market	Cost	Market
Bank balance (overdraft)	$ 280,516	$ 280,516	$ (1,881,894)	$ (1,881,894)
Money market investments	-	-	934,049	934,049
Bonds	2,870,066	2,897,905	4,934,025	5,002,076
Equities	3,643,465	4,516,696	2,449,084	3,117,707
	6,794,047	$ 7,695,117	6,435,264	$ 7,171,938
Less: long-term amounts	(4,264,096)		(5,576,232)	
	$ 2,529,951		$ 859,032	

The College's investment strategy is to meet expenditure requirements within one year, investing such funds in liquid investments. Short term investment guidelines are as follows:

a) Assure necessary cash flow.
b) Maximize rate of return.
c) Minimize risk of permanent capital impairment.
d) Preserve capital in nominal and real terms over the long term.
e) Generate a return which is competitive.

The balance of funds are invested for a longer term with a mix of maturities between one and ten years. Long term investments guidelines are as follows:

a) No more than 10% of total portfolio can be invested in any one Money market issue except those guaranteed by Government of Canada or the Province of Alberta.
b) No more than 10% of total portfolio can be invested in any one government bond issue except those issued by Government of Canada or the Province of Alberta.
c) No more than 5% of total portfolio in any one corporate bond issue.
d) No more than 5% of equity component to be invested in any one equity issue.
e) Quality constraint on Money market securities of at least a rating of R1 or A1 by the Canadian Bond Rating Service or Dominion Bond Rating Service.
f) Quality constraint on all Corporate and Provincial Bonds of at least a rating of A low by a recognized bond rating service.

The rate of return on the investments for this fiscal year is 8.76% (in 2004, 13.91%).
Money Market / Monthly Income Fund Investments have an average effective yield of 15.48% (in 2004, 10.1%) with a term to maturity of less than one year.
Pooled Bond Funds have an average effective yield of 2.22% (in 2004, 4.9%) and weighted average term to maturity of more than one year.

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Note 6 **Capital Assets**

Capital assets consist of:

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 1,612,439	$ -	$ 1,612,439	$ 1,612,439
Buildings	78,355,548	(37,855,618)	40,499,930	42,503,787
Site improvements	17,146,302	(9,055,083)	8,091,219	8,490,771
Furniture & equipment	10,186,548	(6,508,386)	3,678,162	3,534,707
Computers & tele-communications equipment	7,857,940	(5,592,573)	2,265,367	2,913,096
Vehicles	1,656,458	(1,323,413)	333,045	412,614
Leasehold improvements	1,079,069	(155,569)	923,500	955,690
Milk quotas	220,391	-	220,391	215,546
Library	3,369,937	(2,843,565)	526,372	661,003
	$ 121,484,632	$ (63,334,207)	$ 58,150,425	$ 61,299,653

The Province of Alberta has been granted an option to purchase for $1 the whole or any part of the land, buildings and site improvements that it transferred to the College in 1982.

Note 7 **Unearned Revenue**

Unearned revenue consists of:

	2005	2004
Tuition and residence fees	$ 1,026,490	$ 1,031,317
Contract advances	51,831	38,995
Extension and community education course fees	48,997	22,651
Projects & programs	22,523	56,829
	$ 1,149,841	$ 1,149,792

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Note 8 Deferred Contributions

Changes in deferred contributions are as follows:

	2005	2004
Restricted donations & contributions received during the year:		
Conditional grants	$ 1,564,024	$ 2,095,753
Donations in kind	31,514	128,720
Transfer (to) from deferred capital contributions (Note 9)	(203,836)	(169,054)
Scholarships	87,653	109,878
Interest on endowments (Note 16)	113,080	63,840
	1,592,435	2,229,137
Transferred to revenue:		
Conditional grants (Note 14)	(1,703,345)	(1,234,434)
Capital donations	(11,468)	(27,958)
Scholarships and bursaries	(202,034)	(178,063)
	(1,916,847)	(1,440,455)
Increase (decrease) during the year	(324,412)	788,682
Balance at beginning of the year	2,190,020	1,401,338
Balance at end of the year	$ 1,865,608	$ 2,190,020
The balance consists of funds restricted for:		
Conditional programs	1,619,118	1,942,226
Scholarships and bursaries	234,669	192,644
College development	11,821	55,150
	$ 1,865,608	$ 2,190,020

Note 9 Deferred Capital Contributions

Changes in deferred capital contributions are as follows:

	2005	2004
Contributions received during the year	$ 166,290	$ 408,295
Transferred from (to) deferred contributions (Note 8)	203,836	169,054
Total contributions received in year	370,126	577,349
Transferred to unamortized deferred contributions (Note 10)	(284,772)	(591,986)
Balance at beginning of the year	436,525	451,162
Balance at end of the year	$ 521,879	$ 436,525

Note 10 Unamortized Deferred Capital Contributions

	2005	2004
Transferred to revenue	$ (2,416,063)	$ (2,495,834)
Transferred from deferred capital contributions (Note 9)	284,772	591,986
	(2,131,291)	(1,903,848)
Balance at the beginning of the year	44,789,691	46,693,539
Balance at the end of the year	$ 42,658,400	$ 44,789,691

Note 11 Long-Term Debt

	2005	2004
(a) Alberta capital financing authority	$ 2,640,000	$ 2,760,000
(b) PeopleSoft	247,013	438,526
(c) Bank loans	-	480,465
(d) Finance contracts	-	16,536
(e) Bank loan	-	8,972
	2,887,013	3,704,499
Less: current portion	(331,804)	(847,973)
	$ 2,555,209	$ 2,856,526

(a) The ACFA loan is a 25 year debenture secured by residences with value of $2,150,920 and investments of $1,000,000. The debenture incurs interest at 6.5% per annum.

(b) The PeopleSoft loan is repayable at $18,500 per month for 5 years.

Aggregate annual payments of long-term debt are as follows:

2005-06	$ 331,804
2006-07	174,952
2007-08	120,000
2008-09	120,000
2009-10 and subsequent	2,140,257
	$ 2,887,013

Note 12 Net Assets Internally Restricted by the Board

Net assets internally restricted by the Board represent amounts set aside by the College's Board of Governors to be used for the following designated purposes. These amounts are not available for other purposes without the approval of the Board.

	2005	2004
Major maintenance and equipment	$ -	$ 69,082
Delivery initiatives	-	173,087
Long term delivery initiatives	-	281,645
	$ -	$ 523,814

Note 13 Endowments

External endowments consist of funds restricted for:

	2005	2004
College development	$ 420,089	$ 420,089
Scholarships and bursaries	1,268,656	1,119,618
	$ 1,688,745	$ 1,539,707

Funds are required to be maintained in perpetuity.

Note 14 Grants

Grant revenue consists of:	2005 Budget	Actual	2004 Actual
Advanced Education			
General Operating	$ 19,829,382	$ 20,207,589	$ 19,803,350
Conditional (Note 8)	674,912	1,703,345	1,262,392
Other Government Grants	230,834	30,223	182,376
Province of Saskatchewan			
General Operating	1,040,563	866,095	769,475
	$ 21,775,691	$ 22,807,252	$ 22,017,593

Note 15 **Sales, Rentals and Services**

Revenue and direct expense for sales, rentals and services consists of:

	2005 Budget	2005 Actual	2004 Actual
Revenue:			
Residences	$ 2,345,250	$ 2,154,126	$ 2,211,617
Bookstores	1,124,700	1,113,479	915,625
Cafeterias	668,260	656,570	658,498
Conference Services	202,530	221,363	179,267
Printing	2,400	8,193	7,495
Swimming Pools	206,042	201,636	217,303
Other	149,250	159,223	260,502
	4,698,432	4,514,590	4,450,307
Direct Expenses:			
Residences	1,813,115	1,696,478	1,792,034
Bookstores	973,773	1,240,167	926,031
Cafeterias	657,036	661,665	678,789
Conference Services	186,457	219,780	181,732
Printing	1,200	22,548	20,438
Swimming Pools	256,043	261,254	316,146
Other	147,909	205,629	215,666
	4,035,533	4,307,521	4,130,836
Excess of Revenue over Direct Expenses	$ 662,899	$ 207,069	$ 319,471

Note 16 **Investment Revenue**

	2005	2004
Investment Income Earned	$ 462,783	$ 462,167
Gain on Sale of Investments	198,389	651,105
Investment Income Before Transfer	661,172	1,113,272
Less: amount transferred to deferred contributions (Note 8)	$ (113,077)	$ (63,840)
Investment Income	$ 548,095	$ 1,049,432

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Note 17 **Operating Expense**

Operating expense is summarized as follows:

	2005		2004
	Budget	Actual	Actual
Instruction	$ 17,464,385	$ 17,469,860	$ 17,125,546
Amortization of capital assets	4,814,804	4,725,410	4,689,957
Cost of sales, rental & services (Note 15)	4,035,533	4,307,521	4,130,836
Facility operations and maintenance	3,100,872	4,027,933	4,252,038
Academic support	4,503,996	6,080,818	4,919,050
Institutional support	5,894,531	5,445,210	5,304,055
Student services	2,815,483	2,753,722	2,852,953
Computing services	1,626,742	1,526,145	1,523,067
	$ 44,256,346	$ 46,336,619	$ 44,797,502

Instruction encompasses all formal education and instructional program elements. Academic support includes all activities that directly support the educational and instructional elements such as academic administration, library and audio-visual services. Institutional support includes all activities that provide institution-wide support to other programs such as the President's office, human resources and financial services. Student Services includes all activities and services for the student body.

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Note 18 Salaries and Benefits

The following information is prepared in accordance with Treasury Board Directive No. 03/04 and only includes salary and benefit information for the Board and Executive Management:

	2005					2004	
	Number of Individuals	Base Salary (1)	Other Cash Benefits (2)	Other Non-Cash Benefits (3)	Total	Number of Individuals	Total (Revised)
Chairman of Board							
Lakeland College	1	$ -	$ 10,738	$ 259	$ 10,997	1	$ 25,505
fire etc.		-	-	-	-	1	8,676
Other Board							
Lakeland College	11	-	34,273	522	34,795	10	48,717
fire etc.		-	-	-	-	7	30,307
		-	45,011	781	45,792		113,205
President	1	166,004	7,150	33,499	206,653	1	198,412
VP Academics	1	125,000	-	24,585	149,585	1	133,373
CEO fire etc.		-	-	-	-	1	173,542
VP Marketing, Corporate Development and fire ec.	1	112,000	16,160	19,208	147,368		-
VP Finance and Operations	1.3	120,000	-	15,585	135,585	1.3	147,847
VP Finance and Corporate Services		-	-	-	-	1	114,737
Executive Director Strathcona	1	110,000	-	15,371	125,371	1	114,340
		633,004	23,310	108,248	764,562		882,251
Salaries & Ben Exp in year.		$ 633,004	$ 68,321	$ 109,029	$ 810,354		$ 995,456

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include bonuses, overtime, lump sum payments and honoraria.

(3) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short term disability plan, professional memberships and tuition.
Other non-cash benefits figure also includes the Employer's share of the cost of additional benefits including sabbaticals or other special leave with pay, financial planning services, retirement planning services, concessionary loans, travel allowances, car allowances, and club memberships.

Note 19 Budget

The operating budget was approved by the Board of Governors on May 26, 2004 and the capital budget was approved on May 26, 2004. The operating budget does not include revenues and expenses for ad hoc programs negotiated subsequent to budget approval.

The approved capital budget provided $1,250,000 (actual $1,400,917) for acquisitions of capital assets.

Note 20 Commitments

The College has the following commitments requiring future minimum annual payments for years ending June 30 as follows:

2005-06	$	655,167
2006-07		625,074
2007-08		266,171
2008-09		155,640
2009-10		120,510
	$	1,822,562

Note 21 Related Party Transactions

Province of Alberta

The College is a Provincial Corporation as all the members of the Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions between the College and the Province are disclosed in Note 14 to these financial statements. In addition, the conditional grants deferred contribution balance includes $2,491,286 (2004 - $1,873,512) of conditional grants provided by the Province.

The College provided courses to other provincial colleges and participated in the development, sale and offering of certain courses with other public colleges. The revenues and expenses incurred for these have been included in the consolidated statement of operations but have not been separately quantified. These transactions were entered into on the same business terms as with non-related parties and are recorded at fair market value.

Note 22 Pension Liability and Expense

The College participates in two multi-employer pension plans, Local Authorities Pension Plan (LAPP) and the Management Employees Pension Plan (MEPP). The expense for these plans is $1,256,233 for the year ended June 30, 2005 (2004 - $1,061,636).

1) Local Authorities Pension Plan
As at December 31, 2004, the LAPP reported a deficiency of $1,288,924,000 (2003 - $1,453,487,000). Effective January 1, 2005, the employers' contribution rate was increased by 0.798%.

2) Management Employee Pension Plan
As at December 31, 2004 the MEPP reported a deficiency of $268,101,000 (2003 - $290,014,000).

LAKELAND COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Note 23 **Contingent Liabilities**

The College, in the conduct of its normal activities, is a defendant in a number of legal proceedings. While the ultimate outcome of these proceedings cannot be predicted at this time, it is the opinion of the administration that adequate provision for these proceedings has been made in the College's accounts. It is believed that the resolution of the proceedings will not have a material effect on the financial position of the College, however, should any additional loss result from the resolution of these proceedings, such amounts would be expensed as the related amounts become known to the College.

Note 24 **Comparative Figures**

The 2004 figures have been reclassified where necessary to conform to 2005 presentation.

Note 25 **Approval of Financial Statements**

These financial statements were approved by the Board of Governors.

LETHBRIDGE COMMUNITY COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Revenue and Expense

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Lethbridge Community College

I have audited the consolidated statement of financial position of Lethbridge Community College as at June 30, 2005 and the consolidated statements of revenue and expense, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 28, 2005

LETHBRIDGE COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2005

	2005	2004
ASSETS		
Current:		
Cash and cash equivalents (Note 3)	$ 1,383,376	$ 2,055,747
Accounts receivable (Note 4)	1,160,254	1,083,547
Accrued investment income	59,653	42,400
Inventories (Note 5)	554,621	496,871
Prepaid expenses	314,978	279,448
	3,472,882	3,958,013
Non-current cash and investments (Note 3)	10,829,804	7,930,512
Capital assets (Note 6)	51,156,608	51,934,978
	$ 65,459,294	$ 63,823,503
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 1,352,384	$ 1,544,141
Accrued vacation pay	742,706	717,524
Unearned revenue (Note 7)	946,239	1,027,859
Deferred contributions (Note 8)	1,302,920	1,250,931
Current portion of debenture payable (Note 10)	150,491	141,805
	4,494,740	4,682,260
External capital contributions (Note 8)	473,961	1,653,626
Debenture payable (Note 10)	5,954,532	6,105,023
Unamortized external capital contributions (Note 11)	33,332,948	34,004,809
	39,761,441	41,763,458
	44,256,181	46,445,718
Net assets:		
Operating:		
Unrestricted	2,815,323	-
Internally restricted (Note 12)	1,957,256	1,308,894
	4,772,579	1,308,894
Investment in capital assets (Note 6)	11,718,637	11,683,341
Endowments (Note 13)	4,711,897	4,385,550
	21,203,113	17,377,785
	$ 65,459,294	$ 63,823,503

The accompanying notes are part of these consolidated financial statements.

Commitments and contingencies (Note 21)

LETHBRIDGE COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE
FOR THE YEAR ENDED JUNE 30, 2005

	2005		2004
	Budget (Note 22)	Actual	Actual
Revenue:			
Grants (Note 14)	$ 26,647,483	$28,146,180	$ 27,166,017
Tuition and related fees	16,127,775	15,916,466	14,523,818
Sales, rentals and services (Note 15)	7,552,790	6,894,917	7,062,480
Contract programs	1,369,717	1,980,363	1,333,238
Investment income (Note 16)	264,896	458,471	461,553
Donations	262,014	226,003	123,214
Amortization of external capital contributions (Note 11)	3,561,368	2,116,373	3,620,852
	55,786,043	55,738,773	54,291,172
Expense (Note 17):			
Salaries and benefits (Note 18)	33,867,255	34,266,364	32,948,893
Supplies and services	9,572,791	8,559,751	7,993,775
Cost of sales, rentals and services (Note 15)	3,237,942	3,019,071	2,907,049
Utilities	1,828,820	1,677,427	1,797,948
Scholarships and bursaries	150,000	133,593	132,097
Debenture interest	380,002	379,723	388,074
Amortization of capital assets	5,380,082	4,159,746	4,046,771
	54,416,892	52,195,675	50,214,607
Excess of revenue over expense	$ 1,369,151	$ 3,543,098	$ 4,076,565

LETHBRIDGE COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	2005					2004
	Unrestricted	Internally Restricted (Note 12)	Investment in Capital Assets (Note 6)	Restricted for Endowment Purposes (Note 13)	Total	Total
Balance at beginning of year	$ -	$ 1,308,894	$ 11,683,341	$ 4,385,550	$ 17,377,785	$ 12,892,333
Excess of revenue over expense	3,543,098	-	-	-	3,543,098	4,076,565
Transfer to net assets internally restricted	(648,362)	648,362	-	-	-	-
Capital assets acquired from internal funds	(1,958,945)	-	1,958,945	-	-	-
Amortization of internally funded capital assets	2,065,454	-	(2,065,454)	-	-	-
Repayment of debenture related to capital assets	(141,805)	-	141,805	-	-	-
Transfer to endowments	(44,117)	-	-	44,117	-	-
Endowment contributions received	-	-	-	282,230	282,230	408,887
Balance at end of year	$ 2,815,323	$ 1,957,256	$ 11,718,637	$ 4,711,897	$ 21,203,113	$ 17,377,785

LETHBRIDGE COMMUNITY COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	2005		2004
	Budget (Note 22)	Actual	Actual
Cash flows generated from operating activities:			
Excess of revenue over expense	$ 1,369,151	$ 3,543,098	$ 4,076,565
Amortization of capital assets	5,380,082	4,159,746	4,046,771
Amortization of external capital contributions	(3,561,368)	(2,116,373)	(3,620,852)
	3,187,865	5,586,471	4,502,484
Changes in non-cash working capital:			
Accounts receivable	-	(76,707)	187,691
Accrued investment income	-	(17,253)	(5,017)
Inventories	-	(57,750)	75,047
Prepaid expenses	-	(35,530)	99,023
Accounts payable and accrued liabilities	-	(191,757)	547,237
Accrued vacation pay	-	25,182	(43,782)
Unearned revenue	-	(81,620)	103,659
Deferred contributions	-	51,989	(276,384)
	-	(383,446)	687,474
	3,187,865	5,203,025	5,189,958
Cash flows used by investing activities:			
Acquisition of capital assets:			
From internal funds	(1,889,200)	(1,958,945)	(3,846,601)
From external funds	(186,500)	(1,444,512)	(504,469)
Proceeds from disposal of capital assets	-	22,081	23,303
Decrease (Increase) in non-current cash and investments	-	(2,899,292)	1,118,671
	(2,075,700)	(6,280,668)	(3,209,096)
Cash flows generated from financing activities:			
Capital contributions received	13,218	394,472	1,385,883
Transfer from (to) deferred contributions	157,500	(129,625)	(57,878)
Debenture principal repayment	(144,700)	(141,805)	(133,621)
Endowment contributions received	55,979	282,230	408,887
	81,997	405,272	1,603,271
Increase (decrease) in current cash and cash equivalents, net of change in bank overdraft	1,194,162	(672,371)	3,584,133
Current cash and cash equivalents, net of bank overdraft, beginning of year	458,621	2,055,747	(1,528,386)
Current cash and cash equivalents, end of year	$ 1,652,783	$ 1,383,376	$ 2,055,747

LETHBRIDGE COMMUNITY COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

Note 1 Authority and Purpose

Lethbridge Community College was established as a board governed institution on April 17, 1957. The College operates under the authority of the Post Secondary Learning Act, Chapter P19.5, Statutes of Alberta 2003. The College provides educational programs to serve the career education and training needs of students and employers and to respond to personal and community development needs through an extensive offering of general interest courses and public service outreach activities. The College is a registered charity and is exempt from payment of income tax.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Consolidated Statements

These consolidated financial statements include the accounts of Lethbridge Community College Foundation ("the Foundation"), which operates under the Companies Act of Alberta. The Foundation is a registered charity and is exempt from payment of income tax. Certain administrative services are provided by the College without charge to the Foundation.

The accounts of the two organizations have been consolidated to reflect the financial position and results of operations as though they were a single economic entity, since the Foundation solicits, receives and administers donations for the advancement of the College. Inter-entity balances and transactions have been eliminated on consolidation.

(b) Revenue Recognition

Operating contributions, including grants from the Province of Alberta, are recognized as revenue in the period when they become receivable. Operating contributions received for a future period are reported as deferred contributions and recognized as revenue in the subsequent period.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(b) Revenue Recognition (continued)

Capital contributions, including capital grants from the Province of Alberta, are recorded as external capital contributions until the amount is invested in capital assets. Amounts invested representing funded capital assets are then transferred to unamortized external capital contributions. Unamortized external capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded. The related portion of amortization expense and the external capital contributions revenue are matched to indicate that the related amortization expense has been funded. Capital contributions invested in capital assets that will not be amortized are recognized as direct increases in net assets.

Externally restricted non-capital contributions and externally restricted interest earned on non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by external parties. If the contributors stipulate that the amounts cannot be expended, as is the case with endowments, the contributions are recorded as direct increases in net assets.

Donations which are not externally restricted are recognized as revenue when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Pledges are recorded in the year the donation is received.

Amounts received for tuition fees and sale of goods and services are classified as unearned and recognized as revenue at the time the goods are delivered or the services are provided.

(c) Net Assets Internally Restricted

Net assets internally restricted represent amounts set aside by the College Board of Governors, or by the Foundation Board of Directors, to be used for designated purposes.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Investments

Temporary investments are recorded at the lower of cost or market value.

Investments intended to be held for longer term are recorded at cost. Gains and losses on investments are recognized as realized or when there is an other than temporary decline in the value of the investment.

(e) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at the lower of cost and replacement value. Cost is determined using the weighted average method for the Bookstore and the first in, first out method for all other inventories.

(f) Capital Assets

Capital assets are recorded at cost. Donated assets are recorded at fair value at the time of the donation.

Capital assets are amortized on a straight-line basis as follows:

Buildings and site improvements	40 years
Furnishings and equipment	10 years
Library	10 years
Motor vehicles	5 years
Computer equipment and systems software	5 years
Audio and visual equipment	2 years

The permanent art collection is recorded at the appraised value at the time of donation. The permanent art collection is not amortized. The collection is made up of numerous pieces of art that are held for display at the College.

Capital projects in progress are not amortized until the project is complete.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Employee Future Benefits

The College participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provides pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the pension plan. The College's portion of the pension plan's surplus or deficit is not recorded in the accounts.

(h) Financial Instruments

Unless otherwise noted, the carrying values of financial assets and liabilities approximate their fair values.

(i) Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Note 3 Cash and Investments

The Board of Governors has approved an investment strategy with primary investment objectives being the preservation of capital and the generation of a competitive total return. The investment policy provides guidelines on the asset mix, diversification, quality and nature of securities, and the term of the fixed income securities. The guidelines are as follows:

a) Asset Class

Cash equivalents	from 0% to 60% of total portfolio
Fixed income securities	from 40% to 80% of total portfolio
Equities	from 0% to 50% of total portfolio

To measure investment performance and identify the return attributed to the asset mix and asset selection decisions, the College has established a portfolio benchmark of 5% cash equivalents, 60% fixed income securities and 35% equities. Further, it measures cash equivalent returns against the return from the historical treasury bill rate over a rolling four year period, fixed income returns against the return for the Scotia McLeod Universe Index, and equity returns against the return for the TSX 300 Index, S&P 500 Index for U.S. equities and the Morgan Stanley Capital International, Europe, Australia and Far East Index for international equities.

b) Diversification

No more than 10% of the total portfolio will be invested in any one money market issuer other than investments in issuers with a minimum BBB rating as defined by a recognized bond rating service or those guaranteed by the Government of Canada or the Province of Alberta. With these conditions, the maximum investment may be extended to 20% of the total portfolio. No more than 10% of the portfolio will be invested in any one government bond issue other than the Government of Canada or the Province of Alberta. A 30% maximum is placed on any single industry investment and a 4% maximum on any single issuer in the private sector.

Note 3 Cash and Investments (continued)

c) Quality and Nature of Securities

All money market securities will be rated "R-1" or equivalent by the Canadian Bond Rating or the Dominion Bond Rating Services. All corporate and government bonds will carry a rating of a minimum equivalent BBB rating by a recognized bond rating service.

	2005		2004	
	Carrying Value	Fair Value(i)	Carrying Value	Fair Value(i)
Cash and temporary investments:				
Cash	$ 2,530,415	$ 2,530,415	$ 2,197,542	$ 2,197,542
Short term investments	573,946	574,581	-	-
	3,104,361	3,104,996	2,197,542	2,197,542
Fixed income:(ii)				
Federal guaranteed bonds	2,336,086	2,350,217	1,640,660	1,635,054
Provincial guaranteed bonds	1,747,613	1,796,519	1,868,848	1,831,424
Corporate bonds	2,320,232	2,389,269	1,415,379	1,428,832
	6,403,931	6,536,005	4,924,887	4,895,310
Equities:(i)				
Canadian	1,233,449	1,398,556	705,682	933,898
Foreign	1,471,439	1,352,041	2,158,148	2,038,068
	2,704,888	2,750,597	2,863,830	2,971,966
	12,213,180	12,391,598	9,986,259	10,064,818
Less amounts not available for current purposes	10,829,804	11,008,222	7,930,512	8,009,071
Cash and cash equivalents	$ 1,383,376	$ 1,383,376	$ 2,055,747	$ 2,055,747

(i) On a total basis, the market value of all investments is $178,418 greater than (2004 - $78,559) carrying value. Within the investment portfolio, foreign equities, at market value of $1,352,041, are $119,398 less than (2004 - $120,080) carrying value. In 2005, management concluded that it was not necessary to write down investments based on its review of market information as there was no indication of impairment that was other than temporary.

(ii) The terms of the bond portfolio range from 1 year to 9 years with an average term to maturity of 5 years (2004 - 5 years). The average effective yield on the bond portfolio is 5.11% (2004 – 5.17%).

Note 4 Accounts Receivable

	2005	2004
Contracts programs	$ 551,311	$ 416,845
Province of Alberta:		
Alberta Advanced Education	94,614	120,641
Alberta Infrastructure and Transportation	64,473	-
Other Alberta Government departments	74,800	83,819
Government of Canada - Goods and Services Tax	89,887	84,523
Tuition fees	194,743	61,205
Other	90,426	316,514
	$ 1,160,254	$ 1,083,547

Note 5 Inventories

	2005	2004
Bookstore	$ 394,209	$ 385,316
Cafeteria	44,877	47,062
Printing	21,712	24,023
Distance Education Centre	10,619	6,873
Other	83,204	33,597
	$ 554,621	$ 496,871

Note 6 Capital Assets

a) Summary of Cost and Net Book Value

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 432,465	$ -	$ 432,465	$ 432,465
Building and site improvements	87,777,970	45,917,745	41,860,225	42,865,503
Furnishings and equipment	11,056,041	8,986,743	2,069,298	2,053,485
Library	1,173,954	926,933	247,021	229,678
Motor vehicles	964,084	792,752	171,332	191,756
Computer equipment and systems software	14,635,602	8,711,589	5,924,013	982,908
Audio and visual equipment	587,314	574,694	12,620	28,009
Permanent art collection	439,634	-	439,634	370,749
	117,067,064	65,910,456	51,156,608	47,154,553
Capital project in progress (i)	-	-	-	4,780,425
	$ 117,067,064	$ 65,910,456	51,156,608	51,934,978
Less: Construction financed by debenture			6,105,023	6,246,828
Unamortized external capital contributions			33,332,948	34,004,809
Net investment in capital assets			$ 11,718,637	$ 11,683,341

(i) Capital project in progress:

Captial projects in process were completed and put into use during the year, this amount is reflected in the appropriate capital asset classifications.

Note 6 Capital Assets (continued)

b) Capital Acquisitions

Capital acquisitions during the year included certain donations in kind at fair value of $68,885 (2004 - $36,838).

Note 7 Unearned Revenue

	2005	2004
Contract programs	$ 709,412	$ 624,246
Tuition fees	192,750	348,333
Other	44,077	55,280
	$ 946,239	$ 1,027,859

Note 8 Deferred Contributions and External Capital Contributions

Deferred contributions and external capital contributions represent donations and contributions received relating to future years and unspent funds for externally restricted purposes. Changes in the balances are as follows:

	2005	2004
Contributions received:		
Grants, Province of Alberta	$ 133,000	$ 1,223,295
Other contributions	717,642	564,268
Investment income (loss) on net assets externally restricted for endowment purposes	197,609	(23,310)
Transferred to:		
Grants, Province of Alberta	(307,803)	(612,728)
Donations	(226,003)	(123,214)
Investment income (Note 16)	(197,609)	23,310
Unamortized external capital contributions (Note 11)	(1,444,512)	(504,469)
Increase (decrease) during the year	(1,127,676)	547,152
Balance at beginning of year	2,904,557	2,357,405
Balance at end of year	$ 1,776,881	$ 2,904,557

The balances at end of year represent funds held for the following purposes:

	2005	2004
Deferred contributions:		
Scholarships, awards and bursaries	$ 1,240,499	$ 1,009,581
Access program support	57,206	215,385
Conditionally funded projects	-	20,000
Other	5,215	5,965
	1,302,920	1,250,931
External capital contributions:		
Conditionally funded projects: Buildings	299,062	1,047,282
Furniture and Equipment	66,160	366,160
Access program support	104,216	235,661
Endowment earnings	4,523	4,523
	473,961	1,653,626
	$ 1,776,881	$ 2,904,557

Note 9 Pension Costs

The College participates in the Local Authorities Pension Plan which is a multi-employer defined benefit plan. The pension expense recorded in these financial statements is equivalent to the College's annual contributions payable of $1,824,905 for the year ended June 30, 2005 (2004 - $1,528,874).

At December 31, 2004, the Local Authorities Pension Plan reported a deficit of $1,288,924,000 (2003 – $1,410,987,000). Effective January 1, 2005, the employers' contribution rate was increased by 1.0% (2004 – 1.077%).

Note 10 Debenture Payable

The College Board received approval of the Lieutenant Governor in Council to borrow funds from the Alberta Capital Finance Authority (the "ACFA"), an authority controlled by the Province of Alberta, to finance the campus residence expansion project. A $6,625,000 debenture (the "debenture") dated February 23, 2001, was issued by the College in favor of ACFA. The debenture is secured by a security agreement dated February 23, 2001 between the College and ACFA pursuant to which the College granted, in favor of ACFA, a security interest in all present and after acquired intangibles, accounts, monies, book debts, instruments, claims or rights and insurance proceeds.

The debenture, bearing interest at the rate of 6.125% per annum, is to be repaid in annual installments of $524,424, principal and interest. The debenture is due March 1, 2027.

	2005	2004
Debenture payable	$ 6,105,023	$ 6,246,828
Less current portion	150,491	141,805
	$5,954,532	$ 6,105,023

The aggregate maturities of principal required over the next five years and to maturity are as follows:

2006	$ 150,491
2007	159,709
2008	169,491
2009	179,872
2010	190,889
Thereafter	5,254,571
Total debenture payable	$ 6,105,023

Note 11 Unamortized External Capital Contributions

Unamortized external capital contributions represent the external funds invested in capital assets which will be recognized as revenue in future periods. Changes in the unamortized external capital contributions balance are as follows:

	2005	2004
Balance at beginning of year	$ 34,004,809	$ 37,121,192
Add amount transferred from external capital contributions (Note 8)	1,444,512	504,469
Less amount amortized to revenue	(2,116,373)	(3,620,852)
Balance at end of year	$ 33,332,948	$ 34,004,809

Note 12 Net Assets Internally Restricted

Net assets internally restricted are held for the following purposes:

	Balance at Beginning of Year	Transfers to and from Unrestricted Net Assets Deduct Funds Returned	 Add Funds Appropriated	Balance at End of Year
Staff and program development	$ 555,346	$ 410,519	$ 412,553	$ 557,380
Foundation general reserve	27,734	1,054,667	1,079,825	52,892
College funded scholarships endowment earnings	130,092	5,250	9,037	133,879
Other endowment earnings	48,631	80,155	73,417	41,893
Kodiak Team fund	46,293	83,609	95,334	58,018
Other	782	1,632	850	-
	808,878	1,635,832	1,671,016	844,062
Capital replacement	500,016	2,128,263	2,741,441	1,113,194
	$ 1,308,894	$ 3,764,095	$ 4,412,457	$ 1,957,256

The net transfer from Unrestricted Net Assets for the year ended June 30, 2005 comprises:

Funds returned	$ 3,764,095
Funds appropriated	4,412,457
	$ (648,362)

Note 13 Endowments

Endowments consist of restricted donations to the College and internal allocations by the Board of Governors, the principal of which is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. Endowments comprise the following:

	2005			2004
	Externally Funded	Internally Funded	Total	Total
Ronald Tiffin Agricultural Endowment Fund	$ 1,115,115	$ 268,416	$ 1,383,531	$ 1,357,279
Scholarships	2,662,716	74,400	2,737,116	2,451,872
Kodiak Athletics Fund	205,402	76,027	281,429	276,158
Talbot Education Fund	115,565	41,519	157,084	153,442
Industrial Technology Fund	62,500	30,056	92,556	88,782
Native Canadian Fund	28,200	17,327	45,527	43,890
Environmental Fund	9,104	5,550	14,654	14,127
	$ 4,198,602	$ 513,295	$ 4,711,897	$ 4,385,550

Note 14 Grants

Grant revenue consists of amounts received from the following sources:

	2005		2004
	Budget (Note 22)	Actual	Actual
Alberta Advanced Education	$ 24,958,160	$ 26,533,184	$ 25,462,385
Alberta Infrastructure and Transportation	300,000	272,175	417,803
Other Alberta Government departments	522,129	754,335	630,648
Other Government of Canada sources	844,294	530,176	586,086
Other sources	22,900	56,310	69,095
	$ 26,647,483	$ 28,146,180	$ 27,166,017

Note 15 Sales, Rentals and Services

Sales, rentals and services revenue and direct expense are summarized as follows:

	2005					2004
		Direct Expense				
	Revenue	Cost of Sales	Other	Total Direct Expense	Net	Net
Sales, rentals and non-ancillary services	$ 741,298	$ 412,384	$ -	$ 412,384	$ 328,914	$ 552,601
Ancillary services (Note 17):						
Bookstore	2,784,987	2,101,663	191,209	2,292,872	492,115	481,480
Cafeteria	769,379	474,119	296,849	770,968	(1,589)	41,666
Residence	1,599,391	-	1,688,515	1,688,515	(89,124)	(295,858)
Parking	451,003	984	208,743	209,727	241,276	202,821
Meat Store	28,382	15,712	12,450	28,162	220	(3,377)
Daycare centre	207,334	-	216,547	216,547	(9,213)	(5,769)
Physical Education building	207,113	14,209	290,751	304,960	(97,847)	(75,365)
Health services	71,461	-	84,127	84,127	(12,666)	(2,652)
Athletics - special events	34,569	-	35,280	35,280	(711)	(309)
	6,153,619	2,606,687	3,024,471	5,631,158	522,461	342,637
	$ 6,894,917	$ 3,019,071	$ 3,024,471	$ 6,043,542	$ 851,375	$ 895,238

Note 16 Investment Income

	2005	2004
Investment earnings (loss) on net assets restricted for endowment purposes (Note 8)	$ 197,609	$ (23,310)
Add investment income from other sources	260,862	484,863
Total investment income recognized as revenue	$ 458,471	$ 461,553

Note 17 Expense by Function

Instruction encompasses all formal educational and instructional program elements. Academic support includes all activities that directly support the educational and instructional elements such as academic administration, library and audio visual services. Student services include all scholarships, bursaries and activities or services to the student body of the College. Institutional support includes all activities that provide institution-wide support to other programs.

	2005		2004
	Budget (Note 22)	Actual	Actual
Instruction	$ 22,369,709	$ 23,682,197	$ 23,834,081
Academic support	4,047,433	3,850,410	3,677,576
Student services	2,308,046	2,629,174	2,515,034
Institutional support	11,714,290	9,903,960	8,656,063
Ancillary services (Note 15)	6,259,663	5,631,158	5,716,392
Computer services	2,817,617	2,698,135	2,261,587
Amortization of capital assets	5,380,082	4,159,746	4,046,771
	54,896,840	52,554,780	50,707,504
Less amortization of capital assets - Ancillary services	479,948	359,105	492,897
	$ 54,416,892	$ 52,195,675	$ 50,214,607

Note 18 Salaries and Benefits

	2005					2004	
	Number of Individuals[a]	Base Salary[b]	Other Cash Benefits [c]	Other Non-Cash Benefits [d]	Total	Number of Individuals[a]	Total
Chairman of the Board of Governors	1		$ 4,400	$ 68	$ 4,468	1	$ 4,440
Board members[e]	9		17,500	763	18,263	9	18,063
	10		21,900	831	22,731	10	22,503
President[f]	1.0	151,352	81,691	15,251	248,294	1.0	184,015
Vice President Corporate Services	1.0	127,409	-	15,588	142,997	1.0	136,607
Vice President Curriculum and Instruction	0.5	67,525	7,792	6,247	81,564	1.0	143,856
Vice President Student and Enrolment Mgt	0.8	80,250	10,000	15,594	105,844	0.4	45,190
Team Leader Ag. Trades & Tech	1.0	98,210	-	15,020	113,230	1.0	105,349
Team Leader Health, Justice & Human Serv	1.0	98,210	-	14,765	112,975	1.0	105,349
Directors/Managers (average: 2005 - $87,066, 2004 - $79,930)	35.9	2,682,256	-	443,396	3,125,652	39.1	3,125,264
Other salaried staff:							
Administration (average: 2005 - $58,122, 2004 - $55,358)	39.0	1,885,333	12,519	368,899	2,266,751	19.9	1,101,619
Academic (average: 2005 - $77,768, 2004 - $73,737)	185.6	12,379,531	-	2,054,240	14,433,771	190.5	14,046,824
Support (average: 2005 - $39,101, 2004 - $38,514)	195.4	6,182,518	216,490	1,241,288	7,640,296	202.9	7,814,407
Non-salaried staff:[g]							
Administration	-	130,342	-	5,842	136,184	-	116,785
Academic	-	4,214,694	1,728	299,845	4,516,267	-	4,079,521
Support	-	1,297,500	13,656	85,184	1,396,340	-	1,762,555
	461.2	29,395,130	365,776	4,581,990	34,342,896	457.8	32,789,844
Other payroll adjustments:							
Severance payments[h]		27,032	-	-	27,032		139,474
Vacation accruals		-	-	25,182	25,182		(43,781)
Memberships and tuitions		-	-	(5,583)	(5,583)		(5,275)
Curriculum development costs in progress		(268)	-	-	(268)		(278)
Early Retirement Payments [h]		67,525	-	-	67,525		157,236
Addition on capital projects		(175,418)	-	(15,002)	(190,420)		(88,327)
		$ 29,314,001	$ 365,776	$ 4,586,587	$ 34,266,364		$ 32,948,893

Note 18 Salaries and Benefits (continued)

(a) Except for Board members, the number of individuals is expressed as full-time equivalents. The total actual discrete number of individual employees at June 30, 2005 was 1,718 (2004 – 2,035).

(b) Salary includes regular base pay, shift differential, sick-time payments and any other direct cash remuneration.

(c) Other cash benefits include bonuses, overtime, vacation payouts, lump sum payments and honoraria.

(d) Benefits and allowances include the employer's share of all employee benefits and contributions or payments made on behalf of employees including pension plans, Employment Insurance, Workers' Compensation, health care, dental coverage, group life insurance, accidental disability and dismemberment, educational sabbaticals, vehicle allowances, professional memberships, club memberships and remission of tuition fees.

(e) Board members include one representative from each of the academic and support staff. This includes their stipends as Board members, while their salaries and benefits as full-time employees are included under other salaried staff.

(f) An executive compensation package includes an automobile provided to the President. The automobile is not included in the value of benefits disclosed on the schedule.

(g) Non-salaried staff comprises individuals who work less than 29 hours per week; benefits consist of contributions to Employment Insurance, Canada Pension Plan and Workers' Compensation. In addition, for continuing employees working more than 15 hours a week, benefits also include health care, dental coverage, group life insurance, accidental death and dismemberment and vacation payouts.

(h) Severance payments and early retirement payments include all monies paid, directly or on behalf of an employee, upon termination. During the year, the College identified 2 redundant positions which resulted in severance payments and 2 individuals received early retirement payments.

Note 19 Related Party Transactions

a) The College is a Provincial Corporation as all members of the Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Alberta Advanced Education. Transactions between the College and the Province are described in Notes 4, 8, 10 and 14 to the consolidated financial statements.

b) The College accounts for funds of certain associations and clubs related to College activities through Funds Held on Behalf of Others (Note 20). Certain administrative services are provided without charge to these entities.

Note 19 Related Party Transactions (continued)

c) During the year, the College engaged the services of, and purchased goods from, organizations that are controlled or significantly influenced by members of its Board. Amounts of any such services were determined through fair and open competition in the normal course of operations. For the year ended June 30, 2005, the value of such services was $15,930 (2004 - $7,972).

d) During the year, the College engaged the services of, and purchased goods from, other Alberta post secondary education institutions. Amounts of any such services were determined through fair and open competition in the normal course of operations. For the year ended June 30, 2005, the value of such services purchased was $529,271 (2004 - $516,250) and the value of services provided was $99,072 (2004 - $103,558).

e) The College administers a program that permits advances to staff members for the specific purpose of acquiring and maintaining technological currency in computer hardware and software developments. Such advances are repaid over a maximum period of two years at the prescribed interest rate. The balance of advances outstanding as at June 30, 2005 was $36,026 (2004 - $57,731).

Note 20 Funds Held on Behalf of Others

Lethbridge Community College provides administrative services and administers funds on behalf of other organizations. These amounts are held in trust but are not included in the College's statement of financial position and are summarized as follows:

	2005	2004
Lethbridge Community College Students Association, clubs and activities	$ 1,220,868	$ 668,263
Chinook Educational Consortium	459,798	395,499
Associated agencies	168,476	79,775
Other agencies	93,355	29,391
Agricultural research projects	36,714	58,584
	$ 1,979,211	$ 1,231,512

Note 21 Commitments and Contingencies

a) The College leases facilities and equipment with lease terms up to four years. The minimum operating lease payments for each of the next four fiscal years are as follows:

2006	$ 1,013,842
2007	922,415
2008	640,585
2009	575

b) During the year, Lethbridge Community College continued with a major capital project, an administrative technology infrastructure upgrade. As at June 30, 2005, the College had commitments in relation to this project as follows:

	Contract	Expended	Commitments
Consulting	$ 5,588,811	$ 3,615,685	$ 1,973,126
Software and implementation	3,446,891	2,236,567	1,210,324
Technology systems	2,472,404	1,019,727	1,452,677
Total capital project	$ 11,508,106	$ 6,871,979	$ 4,636,127

c) The College, in the conduct of its normal activities, is named a defendant in a legal proceeding. While the ultimate outcome of this proceeding cannot be predicted at this time, it is the opinion of the administration that adequate provision for this proceeding has been made in the College's accounts. It is believed that the resolution of the proceeding will not have a material effect on the financial position of the College, however, should any additional loss result from the resolution of this proceeding, such amounts would be expensed as the related amounts become known to the College.

Note 22 Budget

The 2005 budget was approved by the Board of Governors on April 20, 2004 and submitted to the Minister of Advanced Education (formerly, the Minister of Alberta Learning) on May 31, 2004.

Note 23 Pledges

As at June 30, 2005, outstanding pledges comprise the following:

Endowments	$ 434,515
Comprehensive fundraising campaign	196,960
Total	$ 631,475

These amounts have not been recognized as revenue in the financial statements. The pledges are expected to be collected over the next five years as follows:

2006	$ 395,113
2007	112,462
2008	94,850
2009	28,550
2010	500
Total	$ 631,475

Note 24 Approval of Consolidated Financial Statements

These consolidated financial statements have been approved by the Board of Governors.

MEDICINE HAT COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Medicine Hat College

I have audited the consolidated statement of financial position of the Medicine Hat College as at June 30, 2005 and the consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 16, 2005

MEDICINE HAT COLLEGE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2005

	2005	2004
ASSETS		
Current:		
Cash and short-term investments (Note 3)	$ 2,273,314	$ 3,913,277
Accounts receivable	1,075,392	816,950
Inventories	268,658	366,471
Prepaid expenses	237,741	173,639
	3,855,105	5,270,337
Investments (Note 3)	8,969,640	7,629,886
Capital assets (Note 4)	42,752,717	40,867,953
	51,722,357	48,497,839
	$ 55,577,462	$ 53,768,176
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 970,382	$ 1,207,185
Accrued vacation pay	641,495	562,698
Unearned revenue (Note 5)	1,087,068	795,906
Deferred contributions (Note 6)	1,000,229	1,745,163
Current portion of long term debt (Note 7)	84,416	79,451
	3,783,590	4,390,403
Construction payables	1,221,414	1,042,209
Deferred capital contributions (Note 6)	-	146,045
Long term debt (Note 7)	3,690,978	3,775,393
Unamortized deferred capital contributions (Note 8)	27,731,839	28,101,695
	32,644,231	33,065,342
Net Assets:		
Unrestricted	2,331,713	763,250
Internally restricted (Note 9)	2,940,800	4,044,800
Invested in capital assets (Note 10)	11,245,484	8,911,414
	16,517,997	13,719,464
Endowments (Note 11)	2,631,644	2,592,967
	19,149,641	16,312,431
	$ 55,577,462	$ 53,768,176

The accompanying notes are part of these financial statements.

MEDICINE HAT COLLEGE
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2005

	2005		2004
	Budget (Note 20)	Actual	Actual
Revenue:			
Grants (Note 13)	$ 18,146,000	$ 19,128,875	$ 18,189,331
Tuition and related fees	9,894,700	9,331,269	8,610,506
Sales, rentals and services	3,754,500	3,458,392	3,351,433
Donations (Note 6)	229,700	134,603	124,488
Investment income (Note 14)	450,000	529,376	664,322
Amortization of deferred capital contributions	1,163,000	1,227,829	1,169,791
	33,637,900	33,810,344	32,109,871
Expense: (Note 15)			
Salaries and benefits (Note 18)	20,935,300	20,470,852	19,254,495
Supplies and services	7,412,800	6,631,951	6,788,193
Utilities	797,800	834,702	792,350
Scholarships and bursaries	360,000	234,314	269,002
Cost of goods sold	1,324,000	1,108,840	1,055,601
Interest on long term debt	241,000	240,111	244,833
Amortization of capital assets	2,417,000	2,400,077	2,317,150
	33,487,900	31,920,847	30,721,624
Excess of revenue over expense before under-noted item	$ 150,000	$ 1,889,497	$ 1,388,247
Gain on disposal of investment portfolio (note 3)	-	909,036	-
Excess of revenue over expense	$ 150,000	$ 2,798,533	$ 1,388,247

The accompanying notes are part of these financial statements.

MEDICINE HAT COLLEGE
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	2005					2004
	Unrestricted	Internally Restricted (Note 9)	Invested in Capital Assets (Note 10)	Endowments (Note 11)	Total	Total
Excess of revenue over expense	$ 2,798,533	$ -	$ -	$ -	$ 2,798,533	$ 1,388,247
Transfers for:						
Acquisition of capital assets	(3,426,868)	-	3,426,868	-	-	-
Amortization of capital assets	1,172,248	-	(1,172,248)	-	-	-
Repayment of long term debt	(79,450)	-	79,450	-	-	-
Internal restrictions - net	1,104,000	(1,104,000)	-	-	-	-
Endowment contributions	-	-	-	38,677	38,677	40,929
Increase (decrease) in Net Assets	1,568,463	(1,104,000)	2,334,070	38,677	2,837,210	1,429,176
Net Assets, beginning of year	763,250	4,044,800	8,911,414	2,592,967	16,312,431	14,883,255
Net Assets, end of year	$ 2,331,713	$ 2,940,800	$11,245,484	$ 2,631,644	$19,149,641	$16,312,431

The accompanying notes are part of these financial statements.

MEDICINE HAT COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	2005		2004
	Budget (Note 20)	Actual	Actual
Operating activities:			
Excess of revenue over expense	$ 150,000	$ 2,798,533	$ 1,388,247
Non-cash transactions:			
Amortization of capital assets	2,417,000	2,400,077	2,317,150
Amortization of deferred capital contributions	(1,163,000)	(1,227,829)	(1,169,791)
	1,404,000	3,970,781	2,535,606
Net changes in non-cash working capital (Note 19)	59,000	(836,509)	1,283,504
Cash generated through operating activities	1,463,000	3,134,272	3,819,110
Investing activities:			
Acquisition of capital assets	(4,374,500)	(4,284,841)	(6,223,573)
Redemption (purchase) of long-term investments	1,177,000	(1,339,754)	(54,560)
Cash used in investing activities	(3,197,500)	(5,624,595)	(6,278,133)
Financing activities:			
Capital contributions	400,000	711,928	718,431
Construction payables	(273,000)	179,205	768,718
Repayment of long term debt	(79,400)	(79,450)	(74,778)
Endowment contributions	200,000	38,677	40,929
Cash generated through financing activities	247,600	850,360	1,453,300
Decrease in cash and short-term investments	(1,486,900)	(1,639,963)	(1,005,723)
Cash and short-term investments, beginning of year	4,294,612	3,913,277	4,919,000
Cash and short-term investments, end of year	$ 2,807,712	$ 2,273,314	$ 3,913,277

The accompanying notes are part of these financial statements.

MEDICINE HAT COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

Note 1 Authority and Purpose

Medicine Hat College (the "College") operates under the authority of the Post-Secondary Learning Act, Statutes of Alberta 2003, Chapter P-19.5. The College is exempt from payment of Income Tax under section 149 of the Income Tax Act.

The College provides broadly based educational and training programs and services to students and local communities.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results. The following accounting policies and reporting practices are considered significant.

(a) Consolidated Statements

These consolidated financial statements include the accounts of the Medicine Hat College Foundation, which operates under part 9 of the Companies Act of Alberta. The Foundation is a registered charity and is exempt from payment of income tax.

(b) Revenue Recognition

Unrestricted contributions are recognized as revenue in the period they are receivable.

Amounts received for tuition fees, and sale of goods and services are recognized as revenue at the time the goods are delivered or the services are provided.

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by the contributor.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Revenue Recognition (continued)

Externally restricted capital contributions are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested in capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are taken into income, as amortization of deferred capital contributions, in the periods that the related funded capital asset is amortized.

Externally restricted contributions containing stipulations that the amounts should be retained as net assets, or that the contributions should not be expended, are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property.

Contributions of materials and services that would otherwise have been purchased are recorded at fair market value when a fair market value can be reasonably determined.

Revenue from long-term education contracts is determined on the percentage of completion method. Provisions are made for all anticipated losses as soon as they become evident.

(c) Net Assets Internally Restricted

Net assets internally restricted represent amounts set aside by the College Board of Governors to be used for designated purposes.

(d) Investments

Investments are recorded at cost or amortized cost. Gains and losses on investments are recognized when securities are liquidated, or when there is an other than temporary decline in the value of an investment. Amortization of discount or premium is on a straight-line basis over the life of the investment.

(e) Inventories

Inventories held for resale are valued at the lower of cost or net realizable value, with cost determined on a first-in-first-out basis.

(f) Capital Assets

Land transferred to the College from the City of Medicine Hat, and donated land, are recorded at fair market value at the date of transfer.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(f) Capital Assets (continued)

Buildings and renovations are recorded at June 30, 1989 amortized replacement cost as determined by an independent appraisal, with subsequent additions at cost.

Site improvements are recorded at January 1, 1983 replacement cost as determined by an independent appraisal, with subsequent additions at cost.

Furnishings and equipment are recorded at cost except for items acquired prior to July 1, 1984, which are recorded at estimated cost as determined by the College. Donated assets are recorded at fair market value at the time of donation.

Library acquisitions are recorded at cost and are comprised of books, audiovisual software and periodicals.

Construction in progress includes direct construction, architectural and engineering costs. Construction in progress is not amortized until construction is completed and the assets are ready for productive use.

Amortization is recorded on a straight-line basis over the assets' useful lives, which are as follows:

Buildings and renovations	40 years
Site improvements	25 years
Furniture and equipment	5 to 25 years
Library acquisitions	10 years
Systems planning and development	10 years

(g) Future Employee Benefits

The College participates in the Local Authorities Pension Plan (LAPP). This pension plan is a multi-employer defined benefit plan that provides pensions for the College's participating employees, based upon years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the LAPP pension plan. The College does not record the College's portion of the pension plan's deficit or surplus.

Note 2 **Summary of Significant Accounting Policies and Reporting Practices** (continued)

(h) Financial Instruments

The College's financial instruments consist of cash and short-term investments, accounts receivable, investments, accounts payable and accrued liabilities, accrued vacation pay, construction payables, and long-term debt.

The College is exposed to currency risk (the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates); interest rate risk (the risk that the value of a financial instrument will fluctuate due to changes in market interest rates); and market risk (the risk that the value of a financial instrument will fluctuate as a result of changes in market prices).

It is management's opinion that the College is not exposed to significant currency, interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

Note 3 Cash and Investments

	2005				2004	
	Cash and Short-term Investments	Long-term Investments	Total Cost	Market Value	Total Cost	Market Value
Cash on hand	$ 8,300	$ -	$ 8,300	$ 8,300	$ 8,041	$ 8,041
Bank balances	365,014	1,889	366,903	366,903	1,052,410	1,052,410
Term deposits	1,900,000	-	1,900,000	1,900,000	3,000,000	3,000,000
Bonds	-	-	-	-	6,218,956	6,482,019
Bond fund	-	6,784,268	6,784,268	6,921,829	-	-
Canadian equities	-	-	-	-	858,250	1,151,326
Canadian equity fund	-	1,445,200	1,445,200	1,527,973	-	-
Foreign equities	-	-	-	-	405,506	448,270
Foreign equity fund	-	738,283	738,283	732,600	-	-
	$ 2,273,314	$ 8,969,640	$ 11,242,954	$ 11,457,605	$ 11,543,163	$ 12,142,066

The Board of Governors has an approved investment policy covering both short and long-term investments of the College. The primary investment objectives, in order of priority, are as follows:

a) Preservation of invested capital amounts.
b) Provision of stable and predictable returns.
c) Maximization of return on invested capital amounts.

Note 3 Cash and Investments (continued)

The investment policy requires the following:

a) That the external investment manager must be appointed by the Board of Governors.

b) Investments in equities or corporate fixed income securities must be managed by the external investment manager of record.

c) Investments in cash equivalent securities must have a rating equal to or higher than "R1" or "A1"

d) Investments in fixed income securities must have a rating equal to or higher than "R1" or "A1", with the exception that up to 20% of the fixed income securities can be invested in "BBB-rated" bonds or "R1 low" rated paper.

e) Investment in corporate fixed income securities cannot exceed 50% of the externally managed portfolio.

f) Investment in any single corporate fixed income security cannot exceed 10% of the value of all corporate fixed income security holdings.

g) Investment in any single fixed income security cannot exceed 10% of the value of all investment funds, unless the security is issued or secured by the Government of Canada or a province of Canada.

h) Investment in equities cannot exceed 30% of the externally managed portfolio.

i) Investment in a single equity holding cannot exceed 10% of the value of all equity holdings.

j) Investment is not allowed in equities classified as small cap (i.e. market value of common stock of less than $600,000).

k) Except as noted above, all investments must be issued or fully secured by a chartered bank of Canada, by the Treasury Branch of Alberta, by an Alberta credit union backed by the Province of Alberta, or by the Federal Government or by any Provincial government of Canada.

The above policy was approved by the Board of Governors in January 2005, to allow for a higher equity content (increased from 20% to 30%), as well as other minor changes. In addition the College moved from an externally managed portfolio of direct holdings of bond and equity investments, to a portfolio of mutual and pooled trust funds. As a result of the portfolio conversion a gain on disposal of $909,036 was realized and is separately disclosed on the Consolidated Statement of Operations.

The effective annual rate of earnings on long-term fixed income investments owned by the College at June 30, 2005 was 5.40% (2004 – 5.58%) determined on a weighted average basis. Short-term deposits held at June 30, 2005 were earning 2.62% (2004 – 2.20%). Securities classified as cash and short-term investments will mature in less than one year.

Note 4 Capital Assets

	2005			2004
	Cost & Appraised Value	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 1,553,000	$ -	$ 1,553,000	$ 1,553,000
Buildings and renovations	57,519,638	23,491,114	34,028,524	31,753,462
Site improvements	7,553,825	6,838,003	715,822	781,095
Furniture and equipment	11,705,279	7,819,823	3,885,456	4,221,291
Library acquisitions	4,103,086	3,141,261	961,825	894,013
Systems planning and development	349,086	193,923	155,163	162,687
Construction in progress	1,452,927	-	1,452,927	1,502,405
	$ 84,236,841	$ 41,484,124	$ 42,752,717	$ 40,867,953

Note 5 Unearned Revenue

	2005	2004
Tuition and related fees	$ 1,074,946	$ 784,084
Other	12,122	11,822
	$ 1,087,068	$ 795,906

Note 6 Deferred Contributions and Deferred Capital Contributions

Deferred contributions represent amounts received that have not been spent and are externally restricted. The balance will be recognized as revenue in future periods.

		2005		2004
Contributions received and receivable:				
Grants	$	2,562,785	$	4,268,902
Donations		417,842		177,941
Third Party contributions		-		134,367
Investment income on endowments (note 14)		105,915		132,090
		3,086,542		4,713,300
Transferred to revenue:				
Grants		(2,879,030)		(2,740,633)
Donations		(134,603)		(124,488)
Investment income (note 14)		(105,915)		(132,090)
		(3,119,548)		(2,997,211)
Transferred to:				
Unamortized deferred capital contributions (note 8)		(857,973)		(3,527,183)
(Decrease) during the year		(890,979)		(1,811,094)
Deferred Contributions and Deferred Capital Contributions, beginning of year		1,891,208		3,702,302
Deferred Contributions and Deferred Capital Contributions, end of year	$	1,000,229	$	1,891,208
The balance consists of funds restricted for:				
Deferred Contributions:				
Program delivery	$	392,869	$	1,015,782
Maintenance and repairs		-		375,000
Scholarships		313,381		313,838
Other designated purposes		293,979		40,543
		1,000,229		1,745,163
Deferred Capital Contributions:				
Infrastructure		-		146,045
Deferred Contributions and Deferred Capital Contributions, end of year	$	1,000,229	$	1,891,208

Note 7 Long Term Debt

Pursuant to a security agreement entered into with the Alberta Capital Finance Authority (formerly known as Alberta Municipal Financing Corporation) on May 1, 2002, the College borrowed $4,000,000. The funds were used to finance the construction of new student housing at both the Medicine Hat and Brooks campuses. The borrowing of these funds was approved through an "Order In Council" by the Lieutenant Governor on February 6, 2002.

The debenture bears interest at 6.25% per annum, it is to be repaid in twenty-five (25) consecutive annual installments of $320,378, principal and interest, commencing May 1, 2003 and maturing on May 1, 2027. The debenture is secured by a security interest in certain specific property.

	2005	2004
Debenture Payable		
Current Portion	$ 84,416	$ 79,451
Non-current Portion	3,690,978	3,775,393
	$ 3,775,394	$ 3,854,844

Principal payments due during the next five fiscal years are as follows:

2005 - 2006	$ 84,416
2006 - 2007	89,692
2007 - 2008	95,298
2008 - 2009	101,254
2009 - 2010	107,583
Thereafter	3,297,151
	$ 3,775,394

Note 8 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the external funding of capital assets, which will be recognized in revenue, as amortization of deferred capital contributions, in future periods as the related funded assets are amortized.

	2005	2004
Balance, beginning of year	$ 28,101,695	$ 25,744,303
Add amount transferred from deferred capital contributions (note 6)	857,973	3,527,183
Less amount amortized to revenue	(1,227,829)	(1,169,791)
Balance, end of year	$ 27,731,839	$ 28,101,695

Note 9 Net Assets Internally Restricted

Internally restricted net assets represent amounts set aside by the College Board of Governors to be used for the following purposes. These amounts are not available for other purposes without the approval of the Board.

	2005	2004
Operating:		
Working Capital	$ 1,000,000	$ 1,000,000
Capital:		
Campus Renewal & Expansion	250,800	1,504,800
Computers and Technology	500,000	500,000
Ancillary Services - Student Residence and related parking	600,000	550,000
Ancillary Services - Parking	590,000	490,000
	1,940,800	3,044,800
	$ 2,940,800	$ 4,044,800

Note 10 Net Assets Invested in Capital Assets

	2005	2004
Investment in capital assets	$ 42,752,717	$ 40,867,953
Outstanding capital financing	(3,775,394)	(3,854,844)
Unamortized deferred capital contributions	(27,731,839)	(28,101,695)
	$ 11,245,484	$ 8,911,414

Note 11 Endowments

Endowments consist of externally restricted donations to the College, the principal of which is required to be maintained intact in perpetuity. The investment income generated from the endowments must be used in accordance with the various purposes established by the donors.

Note 12 Ancillary Services

	2005			2004
	Revenue	Expense	Net	Net
Bookstore	$ 1,493,611	$ 1,308,926	$ 184,685	$ 149,746
Cafeteria	104,430	33,071	71,359	72,208
Student residence	1,131,288	1,110,025	21,263	(19,682)
Parking	182,673	59,302	123,371	111,486
	$ 2,912,002	$ 2,511,324	$ 400,678	$ 313,758

Expense includes direct costs only.

Note 13 Related Parties

All members of the Medicine Hat College Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education.

Transactions in the current period between the College and the Province were as follows:

	2005			2004
	Received and Receivable	Deferred Contributions and UDCC (1)	Revenue	Revenue
Grants from Related Parties				
Alberta Advanced Education	$ 17,645,803	$ 358,856	$ 18,004,659	$ 16,945,632
Alberta Infrastructure	93,000	(93,000)	-	-
Other Alberta Government Departments	308,610	48,677	357,287	290,742
	18,047,413	314,533	18,361,946	17,236,374
Grants from Other Sources	765,217	1,712	766,929	952,957
Total Grants	$ 18,812,630	$ 316,245	$ 19,128,875	$ 18,189,331

(1) UDCC refers to Unamortized Deferred Capital Contributions.

As at June 30, 2005, the accounts receivable balance included an amount due from related parties of $442,887 (2004 - $256,362). As at June 30, 2005, the accounts payable balance did not include any amount due to related parties (2004 - $40,600).

During the year, the College conducted business transactions with other public colleges and universities. The revenues and expenses incurred for these courses have been included in the consolidated statement of operations, but have not been separately quantified. These transactions were entered into on the same business terms as with non-related parties and are recorded at fair value.

Note 14 Investment Income

	2005	2004
Investment income on endowments	$ 105,915	$ 132,090
Investment income on other sources	423,461	532,232
Total investment income recognized as revenue	$ 529,376	$ 664,322

Note 15 Expense by Function

	2005	2004
Instruction	$ 15,137,706	$ 14,691,032
Academic support	2,642,524	2,304,939
Student services	2,916,360	2,690,594
Institutional support	2,580,907	2,339,414
Facility operations & maintenance	5,284,296	5,369,527
Ancillary services	2,511,324	2,369,961
Computing services	847,730	956,157
	$ 31,920,847	$ 30,721,624

Instruction encompasses all formal educational and instructional program elements. Academic support includes all activities that directly support the educational and instructional elements such as academic administration, library and audiovisual services. Student services include all activities or services to the student body of the institution. Institutional support includes all activities that provide institution wide support to other programs.

Note 16 Pension Costs

The College participates in a multiemployer pension plan – Local Authorities Pension Plan (LAPP). The pension expense recorded in these financial statements is equivalent to the College's annual contributions payable to the plan of $969,986 for the year ended June 30, 2005 (2004 - $782,323).

At December 31, 2004, the LAPP reported a deficiency of $1,288,924,000 (2003 – deficiency of $1,453,487,000). Effective January 1, 2004 the employers' contribution rates were increased by 1.077%. Rates were increased further on January 1, 2005 by approximately 1%.

Note 17 Funds Held on Behalf of Others

The College holds certain funds on behalf of others over which the Board has no power of appropriation. Accordingly, these funds are not included in the consolidated financial statements. At June 30, the respective funds held on behalf of others were as follows:

	2005	2004
Further Education Council	$ 61,280	$ 52,429
Students' Association	233,857	230,934
Faculty Association	6,610	6,713
Conservatory Groups	35,336	31,590
Homestay fees from international students	258,000	144,000
	$ 595,083	$ 465,666

Note 18 Salaries and Benefits

The Treasury Board's Salary and Benefits Disclosure Directive requires the College to disclose certain salaries and benefits. Those salaries and benefits are as follows:

	2005				2004
	Base Salary (1)	Other Cash Benefits (2)	Other Non-cash Benefits (3)	Total	Total
Chairman of Board	$ -	$ 3,150	$ 128	$ 3,278	$ 5,325
Board (10 members)	-	15,825	396	16,221	17,606
President	159,600	-	22,319	181,919	173,767
Vice-President Academic	116,390	-	16,712	133,102	125,958
Vice-President Corporate Services	103,979	-	15,301	119,280	-
Dean, Science	92,322	-	15,155	107,477	101,641
Dean, Student Services	92,322	-	16,554	108,876	101,641

(1) Base Salary includes pensionable base pay.

(2) Other Cash Benefits include bonuses, overtime, lump sum payments and honoraria where applicable.

(3) Other Non-cash Benefits include the employer's share of all other employee benefits and contributions or payments made on behalf of employees including pension, health care, dental, group life insurance, employment insurance, vacation payouts, remission of tuition fees and car allowances.

Note 19 Changes in Non-Cash Working Capital

	2005	2004
Accounts receivable	$ (258,442)	$ 116,978
Inventories	97,813	(85,650)
Prepaid expenses	(64,102)	(75,766)
Accounts payable and accrued liabilities	(236,803)	37,553
Accrued vacation pay	78,797	2,050
Unearned revenue	291,162	290,681
Deferred contributions	(744,934)	997,658
	$ (836,509)	$ 1,283,504

Note 20 Budget

The original budget was approved by the College's Board of Governors at their regular meeting on April 20, 2004.

Note 21 Commitments and Contingencies

(a) During the 2005 fiscal year the College completed Phase Two of the centre core renovations including the new front entrance. Projects started during the year included a significant Heating, Ventilation and Air Conditioning (HVAC) system renewal project, as well as renovations to the S Wing and L Wing.

In relation to the above projects, as at June 30, 2005, the College had contractual commitments of $635,000 (2004 - $ 2,247,000). This amount has not been recorded in the financial statements.

(b) The College, in the conduct of its normal activities, is a defendant in one legal proceeding. While the ultimate outcome of this proceeding cannot be predicted at this time, it is the opinion of the College's administration that the resolution of the proceeding will not have a material effect on the financial position of the College. No provision for any related loss has been reflected in these statements.

Note 22 Comparative Figures

Certain June 30, 2004 figures have been reclassified to conform to the current year presentation.

Note 24 Approval of Financial Statements

These financial statements were approved by the Board of Governors.

MOUNT ROYAL COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Mount Royal College

I have audited the consolidated statement of financial position of Mount Royal College as at June 30, 2005 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
October 3, 2005

MOUNT ROYAL COLLEGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2005

	2005	2004
ASSETS		
Current:		
Cash and cash equivalents (Note 3)	$ 21,089,501	$ 16,652,247
Accounts receivable	3,317,874	5,876,132
Inventories (Note 4)	830,309	867,720
Prepaid expenses	1,144,723	1,036,705
	26,382,407	24,432,804
Investments (Note 3)	47,598,083	45,051,746
Capital assets (Note 5)	175,030,752	180,877,292
	$ 249,011,242	$ 250,361,842
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 7,307,044	$ 6,230,588
Deferred revenues	3,884,261	3,764,501
Accrued vacation pay	4,302,015	4,007,281
Deferred contributions (Note 6)	7,292,224	7,834,963
Current portion of long-term liabilities (Note 8)	921,627	848,046
Employee leave and retirement allowances	117,241	225,285
	23,824,412	22,910,664
Construction payables	1,091,310	294,804
Unamortized deferred capital contributions (Note 9)	128,021,386	133,083,304
Long-term deferred contributions (Note 6)	814,933	4,562,954
Deferred capital contributions (Note 7)	11,278,102	13,153,634
Long-term liabilities (Note 8)	31,930,969	31,937,766
Long-term employee leave and retirement allowances	1,265,926	1,338,677
	198,227,038	207,281,803
Net assets:		
Unrestricted	4,892,644	2,313,699
Internally restricted (Note 11)	9,922,008	8,457,161
Investment in capital assets	14,204,058	15,087,314
Endowments (Note 10)	21,765,494	17,221,865
	50,784,204	43,080,039
	$ 249,011,242	$ 250,361,842

The accompanying notes are part of these consolidated financial statements.

MOUNT ROYAL COLLEGE
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Revenue:		
Grants	$ 52,405,878	$ 49,996,164
Tuition and related fees	32,262,574	29,259,320
Community programs	16,435,199	15,792,159
Sales, rentals and services	16,315,494	15,517,721
Investment income (Note 12)	3,161,813	2,786,421
Donations and contributions	866,216	1,117,188
Earned capital contributions (Note 9)	8,144,254	7,858,102
	129,591,428	122,327,075
Expense (Note 15):		
Salaries and benefits (Note 16)	80,836,836	77,022,314
Supplies and services	23,263,627	21,995,687
Cost of goods sold	5,151,060	5,086,399
Utilities	4,910,199	5,211,868
Scholarships and bursaries	1,103,445	708,696
Amortization and net loss on disposal of capital assets (Note 5)	11,565,725	11,461,000
	126,830,892	121,485,964
Excess of revenue over expense	2,760,536	841,111
Internally restricted for endowments and future commitments	(2,712,506)	(811,252)
Excess of revenue over expense, net of Board transfers	$ 48,030	$ 29,859

The accompanying notes are part of these consolidated financial statements.

MOUNT ROYAL COLLEGE
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	2005						2004
	Unrestricted Net Assets	Internally Restricted Net Assets (Note 11)	Investment in Capital Assets	Total Net Assets	Endowments (Note 10)	Total	Total
Excess of revenue over expense	$ 2,760,536	$ -	$ -	$ 2,760,536	$ -	$ 2,760,536	$ 841,111
Board Transfers	(2,712,506)	3,112,506	-	400,000	(400,000)	-	-
Internally funded:							
Acquisition of capital assets	(1,009,181)	(1,018,588)	2,027,769	-	-	-	-
Payments on debt	(265,010)	(629,071)	894,081	-	-	-	-
Amortization and net loss on disposal of capital assets	3,805,106	-	(3,805,106)	-	-	-	-
Contributions to endowments	-	-	-	-	4,943,629	4,943,629	2,943,766
Increase (decrease) in net assets	2,578,945	1,464,847	(883,256)	3,160,536	4,543,629	7,704,165	3,784,877
Balance, beginning of year	2,313,699	8,457,161	15,087,314	25,858,174	17,221,865	43,080,039	39,295,162
Balance, end of year	$ 4,892,644	$ 9,922,008	$ 14,204,058	$ 29,018,710	$ 21,765,494	$ 50,784,204	$ 43,080,039

The accompanying notes are part of these consolidated financial statements.

MOUNT ROYAL COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Operating Activities:		
Excess of revenue over expense	$ 2,760,536	$ 841,111
Non-cash transactions:		
Amortization and net loss on disposal of capital assets	11,565,725	11,461,000
Earned capital contributions (Note 9)	(8,144,254)	(7,858,102)
	6,182,007	4,444,009
Net change in non-cash working capital (Note 14)	3,327,818	149,887
Cash generated from operating activities	9,509,825	4,593,896
Investing Activities:		
Acquisition of capital assets:		
From internal funds	(2,027,769)	(4,208,002)
From long-term liabilities	(992,714)	(1,784,819)
From capital contributions	(3,082,336)	(8,902,556)
Proceeds from disposal of capital assets	383,634	-
(Acquisitions) disposals of investments, net	(2,546,337)	468,180
Decrease in long-term deferred contributions	(3,748,021)	(147,327)
Cash used for investing activities	(12,013,543)	(14,574,524)
Financing Activities:		
Increase (decrease) in construction payables	796,506	(7,532,569)
(Decrease) increase in long-term employee leave and retirement allowances	(72,751)	348,866
Proceeds from long-term liabilities	960,865	66,683
Repayments of long-term liabilities	(894,081)	(947,528)
Contributions to endowments	4,943,629	2,943,766
Capital contributions	1,206,804	1,847,979
Cash generated from (used in) financing activities	6,940,972	(3,272,803)
Increase (decrease) in cash and cash equivalents	4,437,254	(13,253,431)
Cash and cash equivalents, beginning of year	16,652,247	29,905,678
Cash and cash equivalents, end of year	$ 21,089,501	$ 16,652,247

The accompanying notes are part of these consolidated financial statements.

Note 1 Authority

Mount Royal College (the "College") operates under the authority of the Post-Secondary Learning Act, Statutes of Alberta 2003, Chapter P-19.5. The College's mission is to foster the success and satisfaction of students in the pursuit of their educational goals. The College is a registered charity under Section 149 of the Income Tax Act and is exempt from payment of income tax.

Note 2 Significant Accounting Policies and Reporting Practices

(a) General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results. The following accounting policies and reporting practices are considered significant.

(b) Consolidated Statements

The financial statements are prepared on a consolidated basis and include the amounts of the following entities:

- (i) The Mount Royal College Foundation incorporated under part 9 of the Companies Act of Alberta on March 26, 1991
- (ii) The Mount Royal College Day Care Society incorporated under the Societies Act of Alberta

(c) Revenue Recognition

Operating grants, including those from the Province of Alberta, are recognized as revenue in the period receivable. If a portion of a grant relates to a future period, that portion is deferred and recognized in the subsequent period.

Capital grants, including those from the Province of Alberta, are recorded as deferred contributions until they are invested in capital assets. Amounts invested, representing funded capital assets and contributions of property, are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as earned capital contributions revenue in the period when the related amortization expense of the funded capital asset is recorded. The related portion of amortization expense and the earned capital contributions revenue are matched to indicate that the related amortization expense has been funded externally.

(c) Revenue Recognition (continued)

Unrestricted cash donations are recognized as revenue in the period received/receivable. Donations of goods and services, which would otherwise have been purchased by the College, are recorded at fair value when a fair value can be reasonably determined.

Externally restricted non-capital contributions are deferred and then recognized as revenue in the period when the related expense or performance is incurred. Externally restricted contributions can only be used for the designated purposes. Externally restricted contributions containing stipulations that they should be retained as net assets or that they should not be expended are recorded as a direct increase in net assets. Such contributions include contributions made for endowment purposes or those to be used to acquire non-amortizable property.

Tuition fees and sales of goods and services are deferred and then recognized as revenue in the period when the services are provided or the goods are sold. Revenue from contracts is recognized using the percentage of completion method and is recognized within community programs revenue.

(d) Inventories

Inventory values are based upon the first in first out method and presented at the lower of cost or net realizable value.

(e) Short-term Investments

Short-term investments are recorded at the lower of cost and market value.

(f) Investments

Investments are recorded at cost. Gains and losses on investments are recognized when an investment is sold or when there is an other than temporary decline in the value of an investment.

(g) Financial Instruments

The carrying value of cash, receivables, payables and accruals approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of investments is market value. The market value of publicly traded investments is based on quoted market prices.

The carrying value of financial assets and financial liabilities are considered to be fair value unless otherwise disclosed.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Financial Instruments (continued)

Financial instruments of the College are exposed to credit risk, interest rate risk, foreign exchange risk and market risks. The College's accounts receivable are due from a diverse group of customers and are subject to normal credit risk. The interest rate risk is the risk to the College's earnings that arises from the fluctuations in interest rates and the degree of volatility of these rates. The foreign exchange risk is the risk of rising costs related to purchase transactions in United States currency. The market risk is the risk to the College's earnings that arises from the fluctuation and the degree of volatility in the market value of its long-term investments. Each of these risks is limited by the College through its collection procedures, investment policy, and other internal policies and procedures.

(h) Capital Assets

Capital assets are recorded at cost. Donated assets are recorded at fair value. Capital assets under construction are not amortized until construction is completed and the assets are ready for productive use.

Capital assets are amortized on a straight-line basis as follows:

Site improvements	20 - 40 years
Buildings	25 - 40 years
Leasehold improvements	5 - 15 years
Furnishings and equipment	3 - 10 years
Computer equipment	3 - 5 years

Library acquisitions are amortized on a declining balance basis at a rate of 10%.

Construction in progress includes direct construction costs, architectural costs, and engineering costs and interest on related debt. Interest costs are capitalized until the asset is substantially complete.

(i) Employee Future Benefits

The College participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provides pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the pension plan. The College's portion of the pension plan's deficit or surplus is not recorded by the College.

Note 3 Cash, Cash Equivalents and Investments

	2005		2004	
	Cost	Market	Cost	Market
Cash and cash equivalents	$ 21,089,501	$ 21,090,636	$ 16,427,360	$ 16,428,121
Capital Investment Annuities	-	-	224,887	224,887
Federal, Provincial and Municipal Bonds	13,694,517	14,753,368	12,406,104	12,886,320
Corporate Bonds	8,343,157	8,902,867	7,881,958	8,095,653
Equities - Canadian	14,087,540	22,133,322	13,596,605	18,850,313
Equities - International	11,472,869	11,627,456	11,167,079	11,388,568
	68,687,584	$ 78,507,649	61,703,993	$ 67,873,862
Held as long-term investments	47,598,083		45,051,746	
Held as cash and short-term investments	$ 21,089,501		$ 16,652,247	

The College's investment policy is to hold all bonds until their maturities. Within the investment portfolio, there are individual equities that are recorded in excess of their market value. The carrying value of these equities has not been written down to market value because management has concluded, based on a review of market information, that there is no indication of a material decline that is other than temporary.

The amount held as long-term investments represents funds not available for current operations and includes endowments, deferred contributions externally restricted for capital or specific purposes, and net assets internally restricted for capital purposes, as outlined below. The long-term portion at any time will equal or exceed the restricted obligations. For the 2005, fiscal year long-term investments exceeded the restricted obligation, as such, there was no restriction on cash and cash equivalents.

	2005	2004
Endowments (Note 10)	$ 21,765,494	$ 17,221,865
Long-term deferred contributions (Note 6)	814,933	4,562,954
Deferred capital contributions (Note 7)	11,278,102	13,153,634
Internally restricted net assets, capital (Note 11)	5,152,545	5,463,825
Total Restricted Long-Term	39,011,074	40,402,278
Unrestricted Long-Term	8,587,009	4,649,468
Total Long-Term Cash & Investments	$ 47,598,083	$ 45,051,746

Note 3 Cash, Cash Equivalents and Investments (continued)

The overall rate of return on cash and investments for the year was 6.4% (2004: 5.4%). The cash and cash equivalents and bond funds maturities and effective yields are as follows:

	2005								2004	
	Less than 1 year	Effective Yield	1 to 5 Years	Effective Yield	Over 5 Years	Effective Yield	Total	Effective Yield	Total	Effective Yield
Cash and cash equivalents	$ 21,089,501	2.26%	$ -		$ -		$ 21,089,501	2.26%	$ 16,427,360	2.37%
Capital Investment Annuity	-		-		-		-		224,887	4.54%
Federal, Provincial and Municipal Bonds			4,310,460	6.28%	9,384,057	4.90%	13,694,517	5.11%	12,406,104	5.27%
Corporate Bonds			1,973,876	5.65%	6,369,281	5.78%	8,343,157	5.77%	7,881,958	6.13%
	$ 21,089,501		$ 6,284,336		$ 15,753,338		$ 43,127,175		$ 36,940,309	

The College Board of Governors (the "Board") has approved an investment policy. The primary investment objectives are the preservation of capital and the generation of a competitive total return.

The Board provides guidelines on asset mix, diversification, quality and nature of securities, and terms of fixed income. The current guidelines are as follows:

(a) Asset Mix

Cash equivalents	From 0% to 15% of total portfolio
Fixed income	From 30% to 70% of total portfolio
Equities	From 20% to 60% of total portfolio

At June 30, 2005 no capital investment annuity was held by the College (2004: $224,887 with 4.54% rate of return). Prior to 2005, this investment had been approved by the Board of Governors as a secure investment vehicle to support the cash flow requirements of the College's campus expansion projects.

To measure investment performance and identify the return attributed to the asset mix and asset selection decisions, the College has established a portfolio benchmark of 5% cash equivalents, 50% fixed income, and 45% equities. Further, it measures cash equivalent returns against the return from 90 day treasury bills, fixed income returns against the return for the Scotia Capital Universe Bond Index, and equity returns against the return for the TSX 300 Index.

Note 3 Cash, Cash Equivalents and Investments (continued)

(b) Diversification – No more than 10% of the total portfolio may be invested in any one money market issuer other than investments guaranteed by the Government of Canada or the Province of Alberta. No more than 10% of the portfolio may be invested in any one government bond issue other than the Government of Canada or the Province of Alberta. A maximum of 5% of the portfolio may be invested in any one corporate bond issue. A maximum of 5% of the equity component may be invested in any one equity issue.

(c) Quality and Nature of Securities – All money market securities are rated "R1" or "A1" or higher by the Standard and Poors Bond Rating Service or the Dominion Bond Rating Service. All corporate bonds are rated "BBB mid" or higher at the time of purchase. Provincial bonds are rated "BBB mid" or higher by a recognized bond rating service.

(d) Terms of the Fixed Income Portfolio – The portfolio is "laddered" with bonds having an average term to maturity that is within plus or minus 50% of the average term of the Scotia Capital Universe Bond Index.

Note 4 Inventories

	2005	2004
Bookstore	$ 763,553	$ 785,077
Recreation	18,515	19,546
Printing	25,988	44,656
Smart Card	17,824	15,633
Food services	4,429	2,808
	$ 830,309	$ 867,720

Note 5 Capital Assets

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land and mineral rights	$ 6,832,913	$ 900	$ 6,832,013	$ 6,832,913
Site Improvements	14,306,769	1,615,211	12,691,558	12,960,831
Buildings	189,057,986	52,268,162	136,789,824	141,990,719
Furnishings and equipment	49,454,715	34,990,680	14,464,035	16,834,938
Library acquisitions	3,733,089	1,723,375	2,009,714	1,831,888
Leasehold improvements	285,830	284,086	1,744	2,094
Construction in progress	2,241,864	-	2,241,864	423,909
	$ 265,913,166	$ 90,882,414	$ 175,030,752	$ 180,877,292

Note 5 Capital Assets (continued)

The net loss on disposal of capital assets in the year was $484,238 (2004: $66,272). This includes a net gain for a residence building destroyed by fire for which insurance proceeds were $339,166.

Capital assets include assets under capital leases with a cost of $1,074,502 and accumulated amortization of $92,668 (2004: $ 880,343 and $ 634,356 respectively).

Capital asset additions include donated assets recorded as gifts in kind of $63,588 (2004: $269,506).

Note 6 Deferred Contributions

Deferred contributions are restricted contributions, which have been received but relate to expenses of future periods.

	2005	2004
Contributions received during the year:		
Grants	$ 2,813,687	$ 4,162,343
Net donations, other contributions and investment income	2,850,856	4,484,862
Transferred from deferred capital contributions (Note 7)	2,808	421,786
Transferred to revenue:		
Grants	(3,882,176)	(3,662,062)
Investment income	(906,999)	(465,428)
Donations and contributions	(619,062)	(1,089,091)
Transferred to unamortized deferred capital contributions (Note 9)	(606,406)	(2,064,428)
Transferred to endowments	(3,943,468)	(235,316)
Increase (decrease) during the year	(4,290,760)	1,552,666
Balance, beginning of year	12,397,917	10,845,251
Balance, end of year	$ 8,107,157	$ 12,397,917

Unspent amounts at the end of the year are restricted for the following purposes:

	2005	2004
Current:		
Program support and scholarships	$ 4,822,996	$ 3,757,235
Conditionally funded programs	785,152	738,647
Maintenance and repairs	1,684,076	3,339,081
	7,292,224	7,834,963
Long-term:		
Special purpose program funding	814,933	4,562,954
	$ 8,107,157	$ 12,397,917

Note 7 Deferred Capital Contributions

	2005	2004
Contributions received during the year:		
Restricted investment income (Note 12)	$ 289,821	$ 187,338
Donations and other contributions	313,385	18,000
	603,206	205,338
Transferred to deferred contributions (Note 6)	(2,808)	(421,786)
Transferred to unamortized deferred capital contributions (Note 9)	(2,475,930)	(6,838,128)
Decrease during the year	(1,875,532)	(7,054,576)
Balance, beginning of the year	13,153,634	20,208,210
Balance, end of year	$ 11, 278,102	$ 13,153,634

The balance at the end of year is restricted for the following purposes:

Campus expansion	$ 11, 278,102	$ 13,153,634

Note 8 Long-term Liabilities

	2005	2004
Construction financing for student residence (a)	$ 31,878,165	$ 32,507,236
Capital lease obligations (b)	974,431	278,576
	32,852,596	32,785,812
Less: current portion	921,627	848,046
	$ 31,930,969	$ 31,937,766

Note 8 Long-term Liabilities (continued)

The minimum annual payments for each of the five succeeding fiscal years are as follows:

Residence Debenture (a)	
2006	$ 667,601
2007	708,492
2008	751,887
2009	797,940
2010	846,814
	$ 3,772,734
Capital Leases (b)	
2006	$ 254,026
2007	195,257
2008	174,314
2009	176,586
2010	174,248
Total minimum lease payments	$ 974,431

(a) Pursuant to a loan agreement entered into on August 14, 2002 with Alberta Capital Finance Authority, the College borrowed the sum of $33.1 million to finance the construction of a new student residence. The loan bears interest at 6.125% per annum and matures August 15, 2027. Security pledged for the loan includes all future cash flows generated through the operation of the new student residence. During the year, there was no debenture interest included in construction in progress (2004: $182,841).

(b) The imputed interest rate payable on these leases averages 8.6% (2004: 11.9%). During the year, interest expense of $31,344 (2004: $63,759) has been included in supplies and services expense.

Note 9 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions are the funded portion of capital assets that will be recognized as revenue in future periods.

	2005	2004
Transferred from deferred contributions (Note 6)	$ 606,406	$ 2,064,428
Transferred from deferred capital contributions (Note 7)	2,475,930	6,838,128
Earned and transferred to revenue	(8,144,254)	(7,858,102)
Increase during the year	(5,061,918)	1,044,454
Balance, beginning of year	133,083,304	132,038,850
Balance, end of year	$ 128,021,386	$ 133,083,304

Note 10 Endowments

	2005	2004
External endowments	$ 21,566,352	$ 17,022,723
Internal endowments	199,142	199,142
	$ 21,765,494	$ 17,221,865

Endowments consist of restricted donations to the College as well as internal allocations by the Board, the principal of which is required to be maintained intact in perpetuity. The investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board. During the year, the Board approved a draw from external endowments of $400,000 due to the expiration of naming rights.

Note 11 Internally Restricted Net Assets

The Board has committed operating net assets as follows:

	2005	2004
Operations:		
Academic program development	$ 729,263	$ 826,519
Campus and information systems development	238,576	268,787
College effectiveness	59,853	59,853
Community needs	33,412	29,066
Professional development	150,802	226,373
Scholarships and bursaries	408,435	415,968
Research and special projects	2,982,287	999,935
Student success/satisfaction	166,835	166,835
	4,769,463	2,993,336
Capital:		
Capital renewal	632,904	351,126
Instructional Equipment	237,347	246,842
Residence	1,084,540	2,600,272
Parking	3,197,754	2,265,585
	5,152,545	5,463,825
Total	$ 9,922,008	$ 8,457,161

Note 12 Investment Income

	2005	2004
Net investment income from restricted balances	$ 1,209,649	$ 659,245
Transfer to deferred capital contributions (Note 7)	(289,821)	(187,338)
Net transferred to deferred contributions	(12,829)	(6,479)
Net Investment income from restricted sources	906,999	465,428
Investment income from unrestricted sources	2,254,814	2,320,993
Investment income	$ 3,161,813	$ 2,786,421

Note 13 Employee Future Benefits

The pension expense recorded in these financial statements is equivalent to the College's annual contributions payable of $3,746,199 for the year ended June 30, 2005 (2004: $3,044,621).

At December 31, 2004, the Local Authorities Pension Plan reported a deficiency of $1,288,924,000 compared to a deficiency of $1,453,487,000 at December 31, 2003.

The College has supplementary pension plans for its Senior Executives, excluding the President. These plans were approved by the Minister of Learning on March 18, 2004. An expense of $98,882 (2004: $92,042) has been included in salaries and benefits relating to these plans. The College's obligation under these plans is included in employee leave and retirement allowances.

Note 14 Net Changes in Non-Cash Working Capital

	2005	2004
Current:		
Decrease (Increase) in accounts receivable	$ 2,558,258	$ (485,955)
Decrease (increase) in inventories	37,411	(20,201)
Increase in prepaid expenses	(108,018)	(410,179)
(Decrease) increase in accounts payable and accrued liabilities	1,076,456	(650,875)
Increase in deferred revenues	119,760	566,835
(Decrease) increase in accrued vacation pay	294,734	(697,199)
Increase (decrease) in deferred contributions	(542,739)	1,699,993
Decrease (increase) in employee leave and retirement allowances	(108,044)	147,468
	$ 3,327,818	$ 149,887

Note 15 Expenses by Function

	2005	2004
Instruction	$ 53,515,398	$ 50,229,686
Academic support	8,337,416	8,163,742
Student services	11,676,045	10,066,052
Institutional support	11,429,803	10,737,894
Facility operations and maintenance	13,052,622	14,437,186
Ancillary services	11,380,726	10,925,171
Computing Services	5,873,157	5,465,233
Amortization and net loss on disposal of capital assets	11,565,725	11,461,000
	$ 126,830,892	$ 121,485,964

Note 16 Salaries and Benefits

This note complies with the requirements of the Alberta Provincial Treasury Board Salary and Benefits Disclosure Directive dated December 16, 1998 (amended on July 6, 2004) as applied to the College. The information is generally comparable from year to year. However, due to the specifics of the requirements and the particulars of the College's organization, the information may not be comparable to that of another organization.

	2005				2004
	Base Salary [(1)]	Cash Benefits [(2)]	Non-Cash Benefits [(3)]	Total	Total
Board Chair	$ -	$ 5,760	$ -	$ 5,760	$ 5,803
Board Members	-	16,320	332	16,652	16,673
President [(4)]	210,000	-	88,609	298,609	255,825
Vice Presidents					
Academic [(5)]	151,210	-	29,600	180,810	282,181
Administrative Services	161,200	-	41,413	202,613	184,333
External Relations	135,200	-	40,557	175,757	213,633
Executive Director					
Student Affairs and Campus Life [(6)]	120,183	-	26,305	146,488	214,492

Note 16 Salaries and Benefits (continued)

(1) Base salary includes pensionable base salary.

(2) Other cash benefits include bonuses, lump sum payments and honoraria.

(3) Employers share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, extended health care, dental care, long-term disability, and group life insurance. Other non-cash benefits figure also includes the employer's share of the cost of additional benefits including sabbaticals or other special leaves with pay, supplementary retirement plans, car allowances, and club memberships.

(4) The President has a place on the Board for which he receives no remuneration. The College provides a vehicle to the President, the value of which is not included in benefits.

(5) The value reported for the Vice-President Academic includes amounts paid to two separate individuals. The former Vice-President Academic left the College on January 31, 2005 and was replaced by an Acting Vice-President Academic.

(6) The value reported for the Executive Director Student Affairs and Campus Life includes amounts paid to two separate individuals. The former Vice-President Student Affairs and Campus Life position was abolished and replaced with an Executive Director, Student Affairs and Campus Life position, on December 31, 2004.

Note 17 Related Party Transactions

The College is a Provincial Corporation as all the members of the Board are appointed either by statute or by a combination of orders by the Lieutenant Governor in Council and the Minister of Alberta Advanced Education. Transactions between the College and the Province are disclosed as follows:

	2005		2004	
	Received and Receivable	Deferred Contributions to Unamortized Deferred Capital Contributions	Received and Receivable	Deferred Contributions to Unamortized Deferred Capital Contributions
Operating grant	$ 44,410,946	$ -	$ 42,495,573	$ -
ACCESS funding - programs	5,212,506	80,828	4,986,535	23,746
ACCESS funding - one-time	-	-	433,000	-
Infrastructure renewal envelope	232,000	-	1,820,000	-
Calgary Conjoint Nursing Program	-	-	88,965	-
Inmate Education Program	236,612	-	212,505	-
Literacy - Peer Learning Program	22,931	-	21,733	-
STEP Grants	31,064	-	31,343	-
Advanced Ed Microsoft Rebate	17,758	-	-	-
International Education Development	-	-	480	-
Integrated Training – Intl Nursing	50,000	-	-	-
Daycare & Related Program Grants	119,325	-	126,562	1,308
Total	$ 50,333,142	$ 80,828	$ 50,216,696	$ 25,054

Note 17 Related Party Transactions (continued)

During the year, the College conducted business transactions with other public colleges and universities. The revenues and expenses incurred for these business transactions have been included in the statement of operations but have not been separately quantified. These transactions were entered into on the same business terms as those with non-related parties and are recorded at fair value amounts.

At June 30, 2005, the College has receivables from the Province of Alberta of $201,099 (2004: $528,076), and payables to the Province of Alberta of $299,200 (2004: $373,514).

The College provides a home relocation loan to the President. This loan bears interest at 3% per annum, is repayable on demand, and at June 30, 2005, the loan balance was $65,945 (2004: $223,631).

Note 18 Commitments and Contingencies

(a) The College leases facilities within Calgary with lease terms of up to four years. These leases expire within the next one to four years. The minimum operating lease payments for each of the four succeeding fiscal years is as follows:

2006	$ 1,414,895
2007	$ 307,526
2008	$ 200,000
2009	$ 100,000

(b) As at June 30, 2005, the College has commitments of approximately $5,838,000 (2004: $592,000) for capital and expansion projects. As well, the College in 2004 entered into a five year contract (expiring on December 31, 2008) to manage its exposure to volatility in the electrical industry. Based on management's estimate, the annual costs for the year ending June 30, 2006 are expected to be approximately $2.85 million.

(c) The College, in the conduct of its normal activities, is a defendant in legal proceedings. The College is currently a defendant in one legal proceeding. While the ultimate outcome of this proceeding cannot be predicted at this time, it is the opinion of the College's administration that adequate provision for this proceeding has been made in the College's accounts. It is believed that the resolution of the proceeding will not have a material effect on the financial position of the College, however, should any additional loss result from the resolution of this proceeding, such amounts would be expensed as the related amounts become known to the College.

Note 19 Pledges

The estimated realizable value of pledges at June 30, 2005 is $5,238,168 (2004: $4,073,277). These pledges are expected to be honoured over the next thirteen years and are not recorded as assets in these financial statements.

Note 20 Budget

The College is required to submit annually a budget/business plan, approved by the Board, to the Minister of Advanced Education for approval. The College's budget and business plan for fiscal year 2004/2005 was approved by the Board on June 7, 2004 and submitted to the Minister thereafter. The consolidated budget is as follows:

	Budget
Revenue	
Grants	$ 49,153,724
Tuition and related fees	31,618,932
Community programs	16,112,776
Sales, rentals and services	16,433,276
Investment income	1,501,319
Donations and contributions	1,012,951
Earned capital contributions	6,500,000
	$ 122,332,978
Expense	
Salaries and benefits	$ 80,555,693
Supplies and services	20,730,015
Cost of goods sold	5,130,368
Utilities	4,886,373
Scholarships and bursaries	721,326
Amortization and net loss on disposal of capital assets	8,805,200
	$ 120,828,975

Note 21 Comparative Figures

Certain 2004 figures have been reclassified to conform to the current year presentation.

Note 22 Approval of Financial Statements

The Board of Governors has approved these financial statements.

NORQUEST COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flow

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of NorQuest College

I have audited the consolidated statement of financial position of NorQuest College as at June 30, 2005 and the consolidated statements of operations, changes in net assets, and cash flow for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 30, 2005

NORQUEST COLLEGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2005

	2005	2004
ASSETS		
Current:		
Cash and investments (Note 3)	$ 8,511,437	$ 7,576,638
Accounts receivable	1,714,812	1,676,717
Inventories	159,250	149,172
Prepaid expenses	249,539	983,009
	10,635,038	10,385,536
Non-current cash and investments (Note 3)	3,221,749	6,514,995
Capital assets (Note 4)	25,057,271	22,619,919
	$ 38,914,058	$ 39,520,450
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 2,309,333	$ 2,311,887
Accrued vacation pay	2,542,306	2,191,275
Unearned revenue (Note 5)	1,548,874	1,327,474
Deferred contributions (Note 6)	380,544	241,423
	6,781,057	6,072,059
Deferred capital contributions (Note 7)	67,555	570,016
Unamortized deferred capital contributions (Note 9)	15,031,274	15,545,013
	21,879,886	22,187,088
Net Assets:		
Unrestricted	31,195	137,468
Internally restricted (Note 10)	6,569,269	9,740,728
Invested in capital assets	10,025,997	7,074,906
	16,626,461	16,953,102
Endowments (Note 11)	407,711	380,260
	17,034,172	17,333,362
	$ 38,914,058	$ 39,520,450

The accompanying notes are an integral part of these financial statements.

NORQUEST COLLEGE
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2005

	2005 Budget (Note 21)	2005 Actual	2004 Actual
Revenue:			
Grants and other provincial government contributions (Note 12)	$ 20,907,309	$ 21,860,020	$ 20,985,401
Tuition and related fees	9,956,980	9,196,085	8,745,413
Entrepreneurial grants and contracts (Note 13)	4,482,463	4,390,130	4,633,771
Other sales, services and rental income	2,123,381	1,819,717	1,971,198
Amortization of deferred capital contributions (Note 9)	1,200,000	1,031,644	1,025,773
Interest income (Note 15)	505,000	468,704	558,050
Donations and contributions	100,000	277,372	67,882
	39,275,133	39,043,672	37,987,488
Expense (Note 16):			
Salaries, wages and benefits (Note 17)	30,029,989	29,362,614	26,064,849
Supplies and services (Note 18)	7,048,599	7,141,193	6,902,667
Amortization and loss/gain on disposal	1,800,000	2,048,059	1,892,440
Utilities	545,688	585,346	546,322
Professional development	192,700	233,101	209,119
	39,616,976	39,370,313	35,615,397
(Deficiency) Excess of revenue over expense	$ (341,843)	$ (326,641)	$ 2,372,091

NORQUEST COLLEGE
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	2005					2004
	Unrestricted	Internally Restricted	Invested in Capital Assets	Endowments	Total	Total
(Deficiency) Excess of revenue over expense	$ (326,641)	$ -	$ -	$ -	$ (326,641)	$ 2,372,091
Endowment contributions	-	-	-	27,451	27,451	13,582
Transfers for:						
Acquisition of internally funded capital assets	(3,973,234)	-	3,973,234	-	-	-
Net book value of capital assets disposed	3,430	-	(3,430)	-	-	-
Amortization of internally funded capital assets	1,018,713	-	(1,018,713)	-	-	-
Board appropriations (Note 10)	(875,501)	875,501	-	-	-	-
Amount expended (Note 10)	4,046,960	(4,046,960)	-	-	-	-
(Decrease) Increase in net assets	(106,273)	(3,171,459)	2,951,091	27,451	(299,190)	2,385,673
Net assets, beginning of year	137,468	9,740,728	7,074,906	380,260	17,333,362	14,947,689
Net assets, end of year	$ 31,195	$ 6,569,269	$ 10,025,997	$ 407,711	$ 17,034,172	$ 17,333,362

NORQUEST COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Cash generated from:		
Operating activities:		
(Deficiency) Excess of revenue over expense	$ (326,641)	$ 2,372,091
Non-cash transactions:		
Amortization of capital assets	2,049,300	1,887,493
Amortization of deferred capital contributions (Note 9)	(1,031,644)	(1,025,773)
(Gain) Loss on disposal of capital assets	(1,241)	4,947
	689,774	3,238,758
Changes in working capital:		
Accounts receivable	(38,095)	(302,912)
Inventories	(10,078)	68,686
Prepaid expenses	733,470	(670,083)
Accounts payable and accrued liabilities	(2,554)	303,181
Accrued vacation pay	351,031	(279,792)
Unearned revenue	221,400	378,618
Deferred contributions	139,121	(444,660)
	1,394,295	(946,962)
Cash provided by operating activities	2,084,069	2,291,796
Investing activities:		
Proceeds on disposal of capital assets	5,728	3,071
Decrease (Increase) in non-current cash and investments - net	3,293,246	(827,019)
Acquisition of capital assets - internally funded	(3,973,234)	(2,558,801)
Acquisition of capital assets - externally funded	(517,905)	(1,055,848)
Cash applied to investing activities	(1,192,165)	(4,438,597)
Financing activities:		
Deferred capital contributions received (Note 7)	52,000	1,372,780
Deferred capital contributions used for operating	(98,471)	(161,478)
Endowment contributions	27,451	13,582
Donated equipment	61,915	-
Cash generated from financing activities	42,895	1,224,884
Increase (Decrease) in cash	934,799	(921,917)
Cash and investments at beginning of year	7,576,638	8,498,555
Cash and investments at end of year	$ 8,511,437	$ 7,576,638

NORQUEST COLLEGE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005

Note 1 Authority and Purpose

NorQuest College (the "College") operates under the authority of the Post-Secondary Learning Act, Chapter P-19.5, Statutes of Alberta, 2003.

Serving primarily communities in central Alberta, the College provides instruction and training to assist adult learners through academic upgrading programs; career entry training in business, health, trades, technical and service industries; and English as a second language programs. The College maintains a special interest in providing programs and services to aboriginal communities.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the College and the NorQuest College Foundation.

In preparing the College's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. Management believes its estimates to be appropriate, however, actual results could differ from these estimates.

(b) Revenue Recognition

(i) Unrestricted Contributions

Unrestricted operating grants and contributions are recognized as revenue in the period when receivable.

(ii) Restricted Contributions

Externally restricted grants and contributions received primarily for non capital purposes are deferred and recognized as revenue in the period when related expenses are incurred.

Externally restricted contributions received primarily for capital purposes are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing externally funded capital assets are then transferred to Unamortized Deferred Capital Contributions. Unamortized Deferred Capital Contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded.

Restricted contributions for the purchase of capital assets which will not be amortized are recorded as direct increases in net assets Invested in Capital Assets.

Externally restricted contributions for endowment purposes are not recognized as revenue, but are recorded as direct increases in net assets.

(iii) Investment Income

Unrestricted investment income is recognized in the year it is earned. Investment income subject to external restrictions is deferred and recognized as revenue in the period the related expenses are incurred.

(iv) Donations

Donations and contributions in kind are recorded at fair value.

(v) Program Delivery

Revenue from tuition fees, education contract programs and sale of goods and services is recognized as revenue in the period in which the goods are delivered or the services are provided.

Revenue from long-term education contracts is determined using the percentage of completion method. Provision is made for all anticipated losses as soon as they become evident.

(c) Inventories

Inventories for resale are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(d) Capital Assets

Capital assets are recorded at cost, except donated assets, which are recorded at fair value.

Capital assets are amortized on a straight-line basis over the following estimated average useful lives:

Buildings, site and leasehold improvements	10 - 40 years
Furniture, equipment and vehicles	10 years
Library collection	10 years
Curriculum	10 years
Computer hardware	5 years
Computer software	5 years
Rental books	5 years

(e) Employee Future Benefits

The College participates in the Public Service Pension Plan and the Management Employees Pension Plan. These pension plans are multi-employer defined benefit pension plans, that provide pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the cost of employer contributions, for its employees during the year, based on rates which are expected to provide for benefits payable under the respective pension plan. The College's portion of the pension plans' deficit or surplus is not recorded by the College.

(f) Full Cost

The College accounts for all significant costs and revenues related to the services it delivers. The fair value of services provided by the Alberta Government is recorded, with a corresponding amount in grants and other provincial government contributions. This consists of an estimate of the fair value of buildings which are leased by the College at a discounted or nominal cost, an estimate of the fair value of internet services, and an estimate of the fair value of courier services.

(g) Financial Instruments

The carrying value of cash, receivables, payables and accruals approximate their fair values due to the relatively short periods of maturity of the instruments.

Note 3 Cash and Investments (current and non-current)

	2005		2004	
	Book Value	Market Value	Book Value	Market Value
a) Cash - operating	$ 536,231	$ 536,231	$ 2,318,888	$ 2,318,888
Cash - investment fund	3,028,516	3,028,516	4,822,061	4,822,061
Total cash	3,564,747	3,564,747	7,140,949	7,140,949
Canada Treasury Bills	1,958,340	1,976,392	-	-
Government of Canada bonds	3,722,628	4,065,201	3,715,860	3,903,390
Provincial bonds	2,487,471	2,616,283	3,234,824	3,341,997
Total investments	8,168,439	8,657,876	6,950,684	7,245,387
Total cash and investments	11,733,186	$ 12,222,623	14,091,633	$ 14,386,336
Less non-current portion	(3,221,749)		(6,514,995)	
Cash and investments - current	$ 8,511,437		$ 7,576,638	

Investments by range of maturity date are as follows:

	2005		
	Book Value	Market Value	Effective Yield to Maturity
Maturity less than one year	$ 1,958,340	$ 1,976,392	2.86%
Maturity 1 - 5 years, bonds	5,229,609	5,578,738	5.41%
Maturity 5 - 10 years, bonds	980,490	1,102,746	5.70%
	$ 8,168,439	$ 8,657,876	

The market value of investments may fluctuate with changes in current interest rates. Market values may decrease if interest rates increase and may increase if interest rates decrease.

Term to maturity of investments is based upon the contractual maturity of the security.

b) Non-current cash and investments comprise:

	2005	2004
Internally restricted for capital purposes	$ 2,746,483	$ 5,564,719
Externally restricted for capital purposes	67,555	570,016
Endowments	407,711	380,260
	$ 3,221,749	$ 6,514,995

Note 4 Capital Assets

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 5,140,000	$ -	$ 5,140,000	$ 3,840,000
Buildings, site and leasehold improvements	17,911,116	2,838,981	15,072,135	14,694,085
Computer hardware	5,314,455	3,132,750	2,181,705	1,839,897
Computer software	1,695,866	1,279,533	416,333	580,493
Rental books	943,464	763,487	179,977	215,815
Furniture, equipment and vehicles	1,802,056	622,171	1,179,885	863,643
Library collection	816,932	446,065	370,867	328,648
Curriculum	651,470	135,101	516,369	257,338
	$ 34,275,359	$ 9,218,088	$ 25,057,271	$ 22,619,919

Note 5 Unearned Revenue

	2005	2004
Tuition fees	$ 1,200,189	$ 888,037
Entrepreneurial contract programs	269,168	394,537
Ancillary services and other	79,517	44,900
	$ 1,548,874	$ 1,327,474

Note 6 Deferred Contributions

	2005	2004
Restricted donations and contributions received during the year:		
Conditional grants	$ 4,155,248	$ 3,311,747
Donations and contributions	321,301	173,291
Interest income (Note 15)	26,894	19,944
	4,503,443	3,504,982
Transferred to revenue:		
Conditional grants, Alberta Advanced Education (Note 12)	(2,828,265)	(2,179,738)
Conditional grants, Government of Canada	(1,238,533)	(1,245,580)
Conditional grants, other (Note 12)	-	(1,000)
Donations and contributions	(276,865)	(66,908)
Interest income (Note 15)	(20,659)	(10,386)
	(4,364,322)	(3,503,612)
Transferred to deferred capital contributions (Note 7)	-	(446,030)
Increase (Decrease) during the year	139,121	(444,660)
Balance at beginning of year	241,423	686,083
Balance at end of year	$ 380,544	$ 241,423

The balance consists of funds restricted for:

	2005	2004
Dayhome Provider Program	$ 25,000	$ -
Integrated Teaching Model	53,000	-
Press Sector Research	11,928	-
Scholarships and bursaries	286,166	235,495
Energy Management Projects	4,450	5,928
	$ 380,544	$ 241,423

Note 7 Deferred Capital Contributions

	2005	2004
Conditional grants:		
Alberta Infrastructure and Transportation	$ 52,000	$ 428,000
Alberta Advanced Education	-	498,750
Transferred from deferred contributions (Note 6)	-	446,030
	52,000	1,372,780
Transferred to grant revenue:		
Alberta Infrastructure and Transportation (Note 12)	(96,302)	(144,807)
Alberta Advanced Education (Note 12)	(2,169)	(16,671)
Transferred to unamortized deferred capital contributions (Note 9)	(455,990)	(1,055,849)
	(502,461)	155,453
Balance at beginning of year	570,016	414,563
Balance at end of year	$ 67,555	$ 570,016

The balance consists of funds restricted for:

	2005	2004
Alberta Infrastructure and Transportation - Facilities renewal	$ -	$ 210,000
Alberta Advanced Education - Health Careers expansion	67,555	360,016
	$ 67,555	$ 570,016

Note 8 Employee Future Benefits

At July 1, 2002, the College established a self-insured long term disability plan for its term employees. Employee and employer contributions are based on a percentage of the monthly salary of each term employee. This percentage is reviewed each year in conjunction with a review of the actual benefits paid out during the year. Employee and employer contributions for the year ended June 30, 2005 were $42,737 (2004 - $44,923) and $12,308 (2004 - $12,900) respectively. Funds disbursed included $23,061 (2004 - $28,204) for claims, $3,600 (2004 - $3,873) for administration costs, and leaving plan assets of $113,786 (2004 - $85,081).

The total accrued benefit obligation at June 30, 2005 is $37,110 (2004 - $39,158). This is comprised of an open and reported claims liability estimate of $2,519 (2004 - $18,005), determined based on a gross monthly benefit and no other discounts for interest, CPP offsets, death or recovery, and a further liability of $34,591 (2004 - $21,153) estimated for incurred but not reported claims (established based on 75% of annual paid claims). The College recognized a net recovery of $20,187 (2004 - $10,080).

The plan surplus is $80,160 (2004 - $45,923). The plan assets are included in the College's cash and investments and the accrued benefit obligation is included in the College's accounts payable and accrued liabilities.

The College participates in the Public Service Pension Plan and the Management Employees Pension Plan. The pension expense recorded in these financial statements is equivalent to the College's annual contributions of $1,639,453 for the year ended June 30, 2005 (2004 - $1,434,120).

At December 31, 2004, the Management Employees Pension Plan reported a deficiency of $268,101,000 (2003- $290,014,000) and the Public Service Pension Plan reported a deficiency of $450,068,000 (2003 - $584,213,000).

Note 9 Unamortized Deferred Capital Contributions

	2005	2004
Balance at beginning of year	$ 15,545,013	$ 15,514,937
Amortization of deferred capital contributions	(1,031,644)	(1,025,773)
Transferred from deferred capital contributions (Note 7)	455,990	1,055,849
Donated equipment	61,915	-
Balance at end of year	$ 15,031,274	$ 15,545,013

Note 10 Internally Restricted Net Assets

Internally restricted net assets represent amounts restricted by the College Board of Governors to be used for the following designated purposes. These amounts are not available for other purposes without the approval of the Board.

	2005			
	Opening	Appropriations and Transfers	Expended	Closing
Capital:				
Downtown Campus Development	$ 3,625,000	$ (75,452)	$ (1,489,486)	$ 2,060,062
Facilities	1,465,806	85,452	(980,405)	570,853
Equipment	115,569	-	-	115,569
Systems development	358,344	(358,344)	-	-
	5,564,719	(348,344)	(2,469,891)	2,746,484
Strategic investment	801,439	7,200	(374,741)	433,898
Technology renewal	1,112,279	972,657	(737,233)	1,347,703
Organizational development	424,673	-	(105,673)	319,000
Instructional development	1,174,673	225,687	(337,592)	1,062,768
Ancillary development	629,875	-	-	629,875
Scholarships	33,070	18,301	(21,830)	29,541
Totals	$ 9,740,728	$ 875,501	$ (4,046,960)	$ 6,569,269

Note 11 Endowments

Endowments consist of restricted donations to the College and internal allocations by the Board of Governors, the principal of which is not to be spent. Investment earnings on externally restricted endowments are recorded as deferred contributions until spent, at which time they are recorded as revenue. Investment earnings on internally restricted endowments are recorded as revenue and transferred to internally restricted net assets until spent. The investment income generated from endowments must be used in accordance with the purposes established by the donors or the Board of Governors. Endowments comprise the following:

	2005	2004
Externally restricted for scholarships and bursaries	$ 266,711	$ 239,260
Internally restricted:		
Scholarships and bursaries	104,000	104,000
Literacy	27,000	27,000
Graduation	10,000	10,000
	141,000	141,000
	$ 407,711	$ 380,260

Note 12 Grants and Other Provincial Government Contributions

	2005	2004
Alberta Advanced Education:		
General operating grant	$ 18,398,986	$ 18,146,726
Performance envelope	219,190	181,351
Conditional grants (Note 6)	2,828,265	2,179,738
Conditional capital grants (Note 7)	2,169	16,671
Other Alberta Government:		
Contributions in kind (Note 20)	315,108	315,108
Conditional capital grants (Note 7)	96,302	144,807
Other conditional grants (Note 6)	-	1,000
	$ 21,860,020	$ 20,985,401

Note 13 Entrepreneurial grants and contracts

	2005	2004
Government of Canada - Language Instruction for Newcomers	$ 1,320,144	$ 1,245,580
Consortia Contracts	695,623	923,276
Alberta Human Resources and Employment:		
Client Advisory and Information Services	623,100	839,450
Disability Related Employment Support	848,162	774,025
Job Placement	10,200	109,200
	1,481,462	1,722,675
Other contracts	892,901	742,240
	$ 4,390,130	$ 4,633,771

Note 14 Ancillary Services

	2005				2004
	Campus Store	Rental Books	Other Ancillary	Total	Total
Revenue	$ 663,062	$ 687,833	$ 325,819	$ 1,676,714	$ 1,827,146
Expense (Note 16)	(539,852)	(513,781)	(181,954)	(1,235,587)	(1,292,515)
Net	123,210	174,052	143,865	441,127	534,631
Indirect expenses	(78,710)	(156,165)	(22,383)	(257,258)	(249,608)
Excess	$ 44,500	$ 17,887	$ 121,482	$ 183,869	$ 285,023

Indirect expenses include estimates for the cost of use of space, facility operating costs, and institutional support. Other ancillary services include parking, car wash, and external printing services.

Note 15 Interest Income

	2005	2004
Interest earnings	$ 474,939	$ 567,608
Add deferred amounts expended (Note 6)	20,659	10,386
Less amounts transferred to deferred contributions for scholarships and bursaries (Note 6)	(26,894)	(19,944)
Total interest income recognized as revenue	$ 468,704	$ 558,050

Note 16 Expense by Function

	2005	2004
Instruction	$ 15,906,593	$ 14,410,878
Academic support	7,221,350	6,302,119
Facilities operations and maintenance	4,828,754	4,683,702
Student services	4,080,238	3,601,867
Institutional support	4,432,322	3,610,147
Ancillary services (Note 14)	1,235,587	1,292,515
Computing, network and communications	1,488,038	1,527,202
Special purpose and trust	177,431	186,967
	$ 39,370,313	$ 35,615,397

Instruction encompasses all formal educational and instructional program elements.

Academic support includes all activities that directly support the educational and instructional elements such as academic administration, library and audio visual services.

Facilities operations and maintenance includes building maintenance, facilities administration, custodial services, utilities, repairs and renovations, capital amortization and other activities for the management of the facilities.

Student services includes all activities or services to the student body of the College.

Institutional support includes all activities that provide College-wide support to other programs and services.

Ancillary services include self supporting revenue producing services provided to students and faculty or staff.

Computing, network and communications includes activities and services that provide and support computing, networking, data communications and other information technology functions.

Special purpose and trust includes activities related to student assessment testing.

Note 17 Salaries, Wages and Benefits

The following information is prepared in accordance with Treasury Board Directive No. 12/98, as amended July 6, 2004, and only includes salary and benefit information for the Board and Senior Management:

	2005				2004
	Base Salary(1)	Other Cash Benefits(2)	Other Non-cash Benefits (3)	Total	Total
Chairman of the Board	$ -	$ 5,040	$ -	$ 5,040	$ 4,600
Board Members	-	27,800	-	27,800	24,875
President	146,719	-	20,114	166,833	163,402
Vice President - College Services	110,030	-	18,437	128,467	120,253
Vice President - Instruction	101,690	-	18,394	120,084	110,165
Executive Director - Community Relations	93,242	-	17,982	111,224	103,223
Dean - Health and Human Services	93,242	-	17,976	111,218	107,094
	$ 544,923	$ 32,840	$ 92,903	$ 670,666	$ 633,612

1) Base Salary represents the actual salary expense and includes base pay and amounts deferred for future leave.

2) Other cash benefits include bonuses, overtime, lump sum payments and honoraria.

3) Other non-cash benefits include the College's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long-term disability plans, and professional memberships required for employment. Other non-cash benefits also includes accrued professional development leave for the President.

Note 18 Supplies and Services

	2005	2004
Supplies and services	$ 2,325,058	$ 2,354,468
Contracted services	1,222,671	1,117,644
Repairs and maintenance	1,050,058	1,032,801
Purchases for resale	515,304	523,560
Leases and rentals	966,979	976,574
Marketing	634,463	476,892
Telecommunications	232,811	296,635
Scholarships and bursaries	193,849	124,093
	$ 7,141,193	$ 6,902,667

Note 19 Commitments and Contingencies

Future minimum annual lease payments under operating leases and other commitments are:

2006	$ 1,330,304
2007	1,301,334
2008	181,025
2009	108,770
2010 and thereafter	16,607

Included in the above is a major contract to provide facility maintenance services. The contract is for the period July 1, 2005 to June 30, 2007. The total outstanding commitment at June 30, 2005 is $1,798,008.

Note 20 Related Parties

(a) Alberta Government and Alberta Post-Secondary Education Institutions

The College is a Provincial Corporation. All of the members of the Board of Governors are appointed pursuant to the Post Secondary Learning Act by a combination of orders by the Lieutenant Governor in Council or the Minister of Advanced Education. In accordance with the accounting policy described in Note 2 (f), the College accounts for all significant costs related to the services for which it is responsible.

In the normal course of operations, the College engages in brokerage and other collaborative arrangements with other post-secondary educational institutions in Alberta. These institutions are also Provincial Corporations.

The College had the following transactions with related parties:

	Alberta Government		Post Secondary Collaboration	
	2005	2004	2005	2004
Revenues:				
Grants and other provincial government contributions	$ 21,860,020	$ 20,984,401	$ -	$ -
Contract Programs	1,625,518	1,778,070	233,730	413,397
Amortization of deferred capital contributions	1,027,258	1,022,119	-	-
Other sales, services and rental income	8,395	3,530	4,662	6,128
	$ 24,521,191	$ 23,788,120	$ 238,392	$ 419,525
Expenses	$ 139,310	$ 123,715	$ 161,429	$ 62,005
Contributions in kind	315,108	315,108	-	-
	$ 454,418	$ 438,823	$ 161,429	$ 62,005
Accounts receivable	$ 466,426	$ 327,922	$ 139,809	$ 299,636
Accounts payable	$ 15,496	$ -	$ 58,079	$ 44,671
Deferred contributions	$ 67,555	$ 570,016	$ -	$ -
Unamortized deferred capital contributions	$ 15,006,988	$ 15,523,658	$ -	$ -

Contributions in kind from the Alberta Government includes an estimate of the fair value of the buildings leased by the College from the Alberta Government at nominal or discounted amounts, and estimates of the fair value of courier and internet services.

(b) Joint Venture

On December 18, 1998, the Lieutenant Governor in Council approved the establishment of a corporation, to be owned equally by Northern Lakes College, Portage College, NorQuest College and Bow Valley College. On February 10, 1999, 818196 Alberta Ltd. was incorporated pursuant to the Alberta Business Corporations Act.

The Corporation was created for the purpose of holding the jointly developed intellectual property transferred from her Majesty the Queen in Right of the Province of Alberta as represented by the Minister of Advanced Education. The fair value of the intellectual property transferred cannot be reasonably determined. As at June 30, 2005, this Corporation was not active.

Note 21 Budget

The Board of Governors approved the College's annual budget on May 3, 2004.

Note 22 Funds Held on Behalf of Others

The College provides accounting services to certain entities. The following funds, held by the College on their behalf, are not included in these financial statements:

	2005	2004
NorQuest College Faculty Association	$ 139,120	$ 122,757
Deferred Salary Leave Plan	103,410	162,377
NorQuest College Students' Association	286,768	288,410
NorQuest College Staff Social Fund - Spirit Planners	(1,908)	700
NorQuest Student Art Club	7,422	5,718
Marine Biology Student Fund	87	84
	$ 534,899	$ 580,046

Note 23 Comparative Figures

Certain comparative amounts have been reclassified where necessary to conform to the current year's financial statement presentation.

Note 24 Approval of Financial Statements

These financial statements were approved by the Board of Governors.

NORTHERN LAKES COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Northern Lakes College

I have audited the consolidated statement of financial position of the Northern Lakes College as at June 30, 2005 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
October 14, 2005

NORTHERN LAKES COLLEGE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2005

	2005	2004
ASSETS		
Current:		
Cash and short term investments	$ 2,976,159	$ 4,463,180
Accounts receivable	1,214,616	1,138,101
Inventories	171,013	210,171
Prepaid expenses	168,180	109,611
	4,529,968	5,921,063
Non-current cash (Note 3)	486,550	68,250
Investments (Note 4)	2,707,481	1,395,979
Capital assets (Note 5)	30,506,157	31,335,250
	$38,230,156	$38,720,542
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 987,498	$ 687,674
Accrued vacation pay	1,877,697	2,003,596
Unearned revenue (Note 6)	57,226	245,783
Deferred contributions (Note 7)	1,071,474	1,373,850
Current portion of deferred capital contributions (Note 8)	32,437	58,807
Security deposits held	16,250	14,744
Current portion of equipment loan (Note 9)	35,224	35,224
	4,077,806	4,419,678
Equipment loan (Note 9)	96,855	132,078
Unamortized deferred capital contributions (Note 10)	25,218,616	25,967,719
	29,393,277	30,519,475
Net assets:		
Unrestricted net assets	2,922,881	2,752,344
Invested in capital assets	5,287,540	5,367,531
Internally restricted net assets (Note 11)	12,942	12,942
	8,223,363	8,132,817
Endowments	613,516	68,250
	8,836,879	8,201,067
	$38,230,156	$38,720,542

The accompanying notes are an integral part of these consolidated financial statements.

NORTHERN LAKES COLLEGE

CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED JUNE 30, 2005

	2005		2004
	Budget (Note 21)	Actual	Actual
Revenue:			
Grants and provincial government contributions (Note 12)	$ 18,496,044	$ 18,667,860	$ 18,504,191
Tuition and related fees	3,991,983	3,246,281	3,158,313
Sales, rentals and services (Note 13)	1,278,750	1,452,514	1,309,676
Contract programs	710,718	463,084	334,578
Investment income (Note 14)	202,000	194,472	178,066
Donations and contributions	46,000	166,566	48,186
Miscellaneous	8,200	31,273	43,766
Gain on disposal of capital assets	25,000	1,682	5,598
Amortization of deferred capital contributions (Note 10)	1,250,000	1,219,748	1,243,811
	26,008,695	25,443,480	24,826,185
Expense (Note 15):			
Salaries, wages and benefits (Note 16)	15,531,702	15,200,651	14,818,617
Supplies and services	5,661,088	4,802,872	4,383,192
Amortization	2,015,000	2,038,533	2,027,521
Utilities	1,262,510	1,226,668	1,332,192
Cost of goods sold	520,000	532,357	566,289
Travel	574,345	553,615	514,751
Facilities rental	173,100	197,963	157,792
Repairs and maintenance	200,650	206,044	156,582
Scholarships and bursaries	70,300	49,465	61,602
	26,008,695	24,808,168	24,018,538
Excess (deficiency) of revenue over expense	$ -	$ 635,312	$ 807,647

NORTHERN LAKES COLLEGE

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2005

	2005					2004
	Endowments	Internally Restricted Net Assets	Invested in Capital Assets	Unrestricted	Total	Total
Excess of revenue over expense	$ -	$ -	$ -	$ 635,312	$ 635,312	$ 807,647
External endowment contributions	500	-	-	-	500	3,250
Contributions for museum collection	-	-	-	-	-	5,008
Transfers for:						
Acquisition of internally funded capital assets	-	-	745,060	(745,060)	-	-
Disposal of internally funded capital assets	-	-	(8,871)	8,871	-	-
Amortization of internally funded capital assets	-	-	(816,180)	816,180	-	-
Internally funded endowments	544,766	-	-	(544,766)	-	-
Increase in net assets	545,266	-	(79,991)	170,537	635,812	815,905
Net assets, beginning of year	68,250	12,942	5,367,531	2,752,344	8,201,067	7,385,162
Net assets, end of year	$ 613,516	$ 12,942	$5,287,540	$ 2,922,881	$8,836,879	$ 8,201,067

NORTHERN LAKES COLLEGE

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2005

	June 30, 2005	June 30, 2004
Cash generated from (used by):		
Operating activities:		
Excess of revenue over expense	$ 635,312	$ 807,647
Non-cash transactions		
Amortization of deferred capital contributions	(1,219,748)	(1,243,811)
Amortization of capital assets	2,038,533	2,027,521
Gain on disposal of capital assets	(1,682)	(5,598)
	1,452,415	1,585,759
Changes in non-cash working capital (Note 17)	(411,428)	(28,401)
Cash generated from operating activities	1,040,987	1,557,358
Investing activities:		
Net (increase) decrease in investments	(1,311,502)	(46,292)
Net increase (decrease) in non-current cash	(418,300)	84,509
Acquisition of capital assets	(1,215,704)	(1,401,270)
Proceeds on disposal of capital assets	7,946	104,248
Cash applied to investing activities	(2,937,560)	(1,258,805)
Financing activities:		
Equipment loan	(35,223)	132,078
Principal payments on capital lease obligation	-	(62,514)
Endowment contributions	500	3,250
Capital contributions received (Note 8)	444,275	434,094
Cash generated from financing activities	409,552	506,908
Increase (Decrease) in cash	(1,487,021)	805,461
Cash and short term investments at beginning of year	4,463,180	3,657,719
Cash and short term investments at end of year	$ 2,976,159	$ 4,463,180

NORTHERN LAKES COLLEGE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005

Note 1 Authority and Purpose

Northern Lakes College (the "College") was established as a public college on May 14, 1997 by the Lieutenant Governor in Council. The College operates under the authority of the Post-Secondary Learning Act, Chapter P-19.5, Statues of Alberta, 2003. The College is a registered charity and is exempt from the payment of income taxes under section 149 of the Income Tax Act.

Serving primarily communities in north central Alberta, the College provides quality educational programs and services which enable adults to continue their education, to improve their employment opportunities, and to enhance their quality of life. The College accomplishes its mission and mandate for services through: direct and distance delivered programs and courses; numerous credit and non-credit offerings; brokerage and collaborative arrangements; partnerships with business, industry, institutions and agencies; a structured network of community involvement in needs definition, student and staff selection, and assessment of College effectiveness; and use of technology to provide affordable and accessible programs and services to a wide geographic area.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the College, the Council of Community Education Committees Society of Northern Lakes College (the "CCEC") and the Sunrise Higher Education Foundation (the "Foundation"). These entities operate under the Alberta Societies Act and are registered charitable organizations for income tax purposes. The CCEC acts as a partner with the College reviewing, monitoring and advising on college service priorities in addition to operating and managing numerous programs and courses. The CCEC is made up of 27 education committees representing numerous community agencies and organizations in north central Alberta. The Foundation manages a co-operative university transfer program which provides full time program advisors and study skills tutors to assist students in developing the skills necessary to succeed.

(b) Revenue Recognition

(i) Unrestricted Contributions

Unrestricted operating grants and contributions are recognized as revenue in the period when receivable.

(ii) Restricted Contributions

Externally restricted non-capital grants and contributions are deferred and recognized as revenue in the period when related expenses are incurred.

Externally restricted capital contributions are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing externally funded capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded.

Restricted contributions for the purchase of capital assets which will not be amortized are recorded as direct increases in net assets.

Externally restricted contributions for endowment purposes are not recognized as revenue, but are recorded as direct increases in net assets.

(iii) Investment Income

Unrestricted investment income is recognized in the year it is earned.

Investment income subject to external restrictions is, depending on the nature of the restrictions, recorded as a direct increase to net assets, or is deferred and recognized as revenue in the period the related expenses are incurred.

(iv) Donations

Donations and contributions in-kind are recorded at fair value when such value can reasonably be determined.

(v) Program Delivery

Revenue from tuition fees, education contract programs and sale of goods and services is recognized as revenue in the period in which the goods are delivered or the services are provided.

Revenue from long-term education contracts is determined on the percentage of completion method. Provision is made for all anticipated losses as soon as they become evident.

(c) Inventories

Inventories for resale are valued at the lower of cost or net realizable value, with cost determined on a moving average basis.

(d) Investments

Non-current investments are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the period to maturity. The cost of disposal is determined on the average cost basis. Gains or losses realized on disposal are recognized in the period of disposal.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(e) Capital Assets and Collections

Capital assets are recorded at cost, except donated assets which are recorded at fair value, when fair value is reasonably determinable.

Capital assets, except work in progress which is amortized upon completion, are amortized on a straight-line basis over the following estimated average useful lives:

Buildings and site improvements	10 - 40 years
Telecommunications equipment	5 - 10 years
Furniture and equipment	5 - 10 years
Logging and heavy equipment	5 - 10 years
Vehicles	5 - 10 years
Library holdings	2 - 10 years
Curriculum development	5 years
Computer equipment and software	5 years

Leasehold improvements are amortized over the remaining term of the lease.

Museum Collections are recorded at cost and are not amortized.

(f) Employee Future Benefits

The College participates in the Province of Alberta's Public Service and the Management Employees Pension Plans. These pension plans are multi-employer defined benefit plans that provide pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the Public Service and the Management Employees Pension Plans. The College's portion of the pension plans' deficit or surplus is not recorded by the College.

(g) Financial Instruments

The carrying value of cash, receivables and payables, and accruals approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of investments is their market value. The market value of publicly traded investments is based on quoted market prices.

(h) Management Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 Non-current Cash

Non-current cash consists of amounts related to:

	June 30, 2005	June 30, 2004
Endowments	$ 486,550	$ 68,250

Cash restricted for endowment purposes represent restricted contributions subject to stipulations specifying that the principal be maintained permanently, although the constituent assets may change from time to time. Investment earnings are to be used for purposes as designated by the contributors. Endowment balance includes an endowment of $5,000 established by the Board of Governors for scholarships.

Note 4 Investments

Investments are comprised of:

	June 30, 2005		June 30, 2004
	Market	Cost	Cost
Cash held by Investment Manager	$ 126.683	$ 126,683	$ 107,915
Term deposits	120,000	120,000	120,000
Fixed Income			
Federal guaranteed bonds	1,866,165	1,811,688	639,900
Provincial guaranteed bonds	675,371	649,110	349,784
	2,541,536	2,460,798	989,684
Equities			
Balanced mutual fund	-	-	95,944
Canadian money market fund	-	-	28,832
Money market fund	-	-	53,604
	-	-	178,380
	$ 2,788,219	$ 2,707,481	$ 1,395,979

a) Term Deposits

These consist of Royal Bank 5.8% term deposits maturing July 5, 2005.

b) Fixed Income Investments

The terms of the bond portfolio range from 1 year to 8 years with an average term to maturity of 5 years. The average effective yield on the bond portfolio is 4.7%.

Note 5 Capital Assets

	June 30, 2005			June 30, 2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings and site improvements	$ 31,109,145	$ 5,100,983	$ 26,008,162	$ 26,244,690
Computer equipment and software	3,911,881	2,773,008	1,138,873	1,410,058
Logging and heavy equipment	125,713	91,561	34,152	42,121
Land	1,276,680	-	1,276,680	1,276,680
Library holdings	1,009,460	692,163	317,297	278,852
Curriculum development	985,259	675,167	310,092	265,797
Furniture and equipment	761,435	441,812	319,623	500,283
Vehicles	539,345	446,250	93,095	142,233
Telecommunication equipment	1,064,040	466,558	597,482	528,134
Leasehold improvements	347,205	192,766	154,439	163,713
Capital leases	107,168	95,907	11,261	32,695
Museum collections	104,925	-	104,925	81,532
Work in progress	140,076	-	140,076	368,462
	$ 41,482,332	$ 10,976,175	$ 30,506,157	$ 31,335,250

Work in progress represents incomplete capital projects for building renovations in the amount of $85,185 and site improvements of $54,891.

Note 6 Unearned Revenue

	June 30, 2005	June 30, 2004
Contract Revenue	$ -	$ 226,218
Tuition Fees	54,365	14,697
Ancillary programs	2,861	4,868
	$ 57,226	$ 245,783

Note 7 Deferred Contributions

	June 30, 2005	June 30, 2004
Balance at beginning of year	$ 1,373,850	$ 1,009,470
Restricted contributions received during the year:		
Conditional grants	668,758	1,419,692
Donations and contributions	178,609	114,252
Investment income (Note 14)	20,591	19,309
	2,241,808	2,562,723
Transferred to:		
Grant revenue (Note 12)	(558,549)	(735,861)
Donation revenue	(159,337)	(13,563)
Endowment Fund	(500)	-
Investment income (Note 14)	(10,640)	(5,930)
Deferred capital contributions (Note 8)	(441,308)	(433,519)
Balance at end of year	$ 1,071,474	$ 1,373,850

Unspent amounts at end of year are restricted for:

	June 30, 2005	June 30, 2004
Infrastructure Renewal	$ 284,644	$ 510,187
Slave Lake Pool	311,442	416,661
Student Awards and Scholarships	209,174	203,406
Program Enhancement	220,462	199,186
Staff Development	19,250	16,582
Alberta North Projects	11,884	11,434
Museum	5,203	3,996
Other	9,415	12,398
	$ 1,071,474	$ 1,373,850

Note 8 Deferred Capital Contributions

	June 30, 2005	June 30, 2004
Balance at beginning of year	$ 58,807	$ 87,759
Contributions received during the year:		
Transfers from deferred contributions (Note 7)	441,308	433,519
Other contributions	2,967	575
	444,275	434,094
Transferred to:		
Unamortized deferred capital contributions (Note 10)	(470,645)	(458,038)
Museum Collection	-	(5,008)
	(470,645)	(463,046)
Balance at end of year	$ 32,437	$ 58,807

Unspent amounts at end of year are restricted for:

	June 30, 2005	June 30, 2004
Career Technology Studies Project	$ 31,258	$ 57,628
Historical Building Restoration Project	1,179	1,179
	$ 32,437	$ 58,807

Note 9 Equipment Loan

In July 2003, the College borrowed the sum of $176,108 from Caterpillar Financial Services Limited for the purchase of a Harvester Simulator. The loan is secured by a charge on this equipment, bears interest at TD Trust prime plus 0.75% and matures March 30, 2009. During the year principal payments amounted to $35,224.

The repayment of principal for the next four fiscal years will be as follows:

2006	$ 35,224
2007	35,224
2008	35,224
2009	26,407
	132,079
Less current portion	35,224
	$ 96,855

Note 10 Unamortized Deferred Capital Contributions

	June 30, 2005	June 30, 2004
Balance at beginning of year	$ 25,967,719	$ 26,753,492
Add amount transferred from deferred capital contributions (Note 8)	470,645	458,038
Less amount amortized to revenue	(1,219,748)	(1,243,811)
Balance at end of year	$ 25,218,616	$ 25,967,719

Note 11 Net Assets Internally Restricted by the Board

Internally restricted net assets represent amounts that match donations received from employees for a variety of College supported projects. These amounts are not available for other purposes without the approval of the Board.

Note 12 Grants and Provincial Government Contributions

	June 30, 2005	June 30, 2004
Unrestricted:		
Alberta Advanced Education:		
Base operating grant	$ 17,979,496	$ 17,757,363
Unfunded Enrollment grant	104,003	-
Museum grants	6,000	10,967
Other grants	19,812	-
	18,109,311	17,768,330
Transferred from Deferred Contributions (Note 7):		
Alberta Advanced Education:		
Access grants	444,517	664,089
Alberta Infrastructure and Transportation:		
Facilities grants	98,198	10,346
Museum grants	15,834	61,426
	558,549	735,861
	$ 18,667,860	$ 18,504,191

Note 13 Sales, Rentals and Services

	June 30, 2005			
	Bookstores	Housing	Other	Total
Sales, rentals and services	$ 600,213	$ 227,416	$ 624,885	$ 1,452,514
Add:				
Amortization of deferred capital contributions	3,032	145,234	-	148,266
Total revenue	603,245	372,650	624,885	1,600,780
Expense (Note 15)	(583,392)	(432,017)	(59,407)	(1,074,816)
Excess (deficiency) of revenue over expense	$ 19,853	$ (59,367)	$ 565,478	$ 525,964
Excess (deficiency) of revenue over expense (2004)	$ 19,287	$ (41,247)	$ 356,744	$ 334,784

Other revenues in the amount of $624,885 (2004 - $400,760) represent service contract revenue, rental income, sale of curriculum and other miscellaneous revenue.

Note 14 Investment Income

	June 30, 2005	June 30, 2004
Investment earnings	$ 204,423	$ 191,445
Add amounts transferred from deferred contributions (Note 7)	10,640	5,930
Less amounts transferred to deferred contributions (Note 7)	(20,591)	(19,309)
Total investment income recognized as revenue	$ 194,472	$ 178,066

Note 15 Expense by Function

	June 30, 2005	June 30, 2004
Instruction	$ 8,410,308	$ 8,060,436
Facilities operations and maintenance	4,957,926	4,923,520
Academic support	3,812,142	3,305,953
Institutional support	2,983,012	3,167,838
Student services	2,226,233	2,229,095
Computing, network and communications	1,343,731	1,205,467
Sales, rentals and services (Note 13)	1,074,816	1,126,229
	$ 24,808,168	$ 24,018,538

Instruction encompasses all formal educational and instructional program elements. Academic support includes all activities that directly support the educational and instructional elements such as academic administration, library and audio visual services. Student services include all activities or services to the student body of the institution. Institutional support includes all activities that provide institution-wide support to other programs.

Note 16 Salaries, Wages and Benefits

The salary and benefit disclosure is provided pursuant to Treasury Board Directive 03/2004 and includes only the salaries and benefits of those individuals in the senior decision making group of the College.

	2005				2004
	Base Salary(1)	Other Cash Benefits(2)	Other Non-cash Benefits(3)	Total	Total
Board of Governors(4)	$ 34,100	$ -	$ -	$ 34,100	$ 26,362
President	155,088	288	5,977	161,353	153,074
Vice-President					
Academic	102,528	660	18,527	121,715	125,060
College Services	89,148	347	16,171	105,666	113,306
Deans:					
Academic Upgrading	86,244	4,498	17,185	107,927	115,612
University and Career Studies	97,884	604	16,688	115,176	107,720
Student Services	89,160	635	17,628	107,423	97,491

(1) Base salary includes pensionable base pay, except for the President who is not subject to pension benefits.

(2) Other cash benefits include wellness pay-outs, health spending accounts and vacation pay buy-outs.

(3) Other non-cash benefits include the College's share of all employee benefits including Canada Pension Plan, Employment Insurance, pensions, health care, dental coverage, group life insurance, and accidental death and dismemberment insurance and any cash disbursements with respect to vehicle allowances.

(4) There are eleven board members. Several members of the Board are serving members of the individual Community Education Committees and/or the Council of Community Education Committees. During the period, these members received additional honoraria totaling $ nil (2004 - $3,560) which is not included in above figure, in their capacity as members of these committees.

Note 17 Changes in Non-cash Working Capital

	June 30, 2005	June 30, 2004
Accounts receivable	$ (76,515)	$ (264,320)
Inventories	39,158	(63,766)
Prepaid expenses	(58,569)	(3,736)
Accounts payable and accrued liabilities	299,824	(209,038)
Accrued vacation pay	(125,899)	(28,574)
Unearned revenue	(188,557)	141,548
Deferred contributions	(302,376)	364,380
Security deposits held	1,506	(119)
Current portion of equipment loan	-	35,224
	$ (411,428)	$ (28,401)

Note 18 Commitments

Future minimum annual lease payments under operating leases are:

2006	$ 370,287
2007	$ 296,037
2008	$ 174,657
2009	$ 28,691
2010	$ 9,720

Note 19 Related Parties

(i) The College is a Provincial Corporation as all members of the Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of the Department of Advanced Education. Grants and other provincial government contributions are described in Note 12.

(ii) On December 18, 1998, the Lieutenant Governor in Council approved the establishment of a corporation, to be owned equally by Northern Lakes College, Portage College, NorQuest College and Bow Valley College. On February 10, 1999, 818196 Alberta Ltd. was incorporated pursuant to the Alberta Business Corporations Act.

The Corporation was created for the purpose of holding jointly developed intellectual property to be transferred from Her Majesty the Queen in Right of the Province of Alberta as represented by the Minister of Advanced Education. As at June 30, 2005 this Corporation was not active and held no assets.

(iii) The College participates in offering certain courses with other Alberta post secondary education institutions. The revenues and expenses incurred for these courses have been included in the consolidated statement of operations at fair value.

Note 20 Operating Segment Information

The following information presents the results of operations of the College by operating segment. The College has three main operating segments which are managed independently and offer differing educational services. The College itself offers numerous credit and non-credit courses, the CCEC offers short-term non-credit courses based on community defined adult learning needs, and the Sunrise Foundation offers university transfer courses. Inter-segment transactions are recorded at fair value.

A) Statement of Financial Position

	June 30, 2005			
	College	CCEC	Sunrise Foundation	Total
Assets				
Total assets	$ 37,712,075	$ 542,047	$ 126,967	$ 38,381,089
Adjustment (1)				(150,933)
Total assets per consolidated statements				$ 38,230,156
Liabilities and Net Assets				
Total liabilities	$ 29,440,578	$ 47,563	$ 126,967	$ 29,615,108
Total net assets	8,271,497	494,484	-	8,765,981
	$ 37,712,075	$ 542,047	$ 126,967	38,381,089
Adjustment (1)				(150,933)
Total liabilities and net assets per consolidated statements				$ 38,230,156

B) Statement of Operations

	College	CCEC	Sunrise Foundation	Total
Total revenue	$ 25,426,025	$ 167,668	$ 30,155	$ 25,623,848
Total expense	24,811,532	160,723	9,247	24,981,502
Excess of revenue over expense	$ 614,493	$ 6,945	$ 20,908	642,346
Adjustment (1)				(7,034)
Total excess of revenue over expense per consolidated statements				$ 635,312

(1) Represents elimination of inter-segment transactions.

Note 21 Budget

The College is required to submit a budget, approved by the Board of Governors of the College, to the Minister of Alberta Learning for his approval. The College Budget for the year ended June 30, 2005 was approved by the Board of Governors on June 9, 2004. The budget for CCEC was approved on June 9, 2004. During the year the Sunrise Board was anticipating the wind down of operations, and therefore a budget for 2004/2005 was not prepared.

	2005			
	College Approved Budget	CCEC Approved Budget	Elimination for Consolidation	Total Budget
Revenue:				
Grants	$ 18,414,644	$ 180,600	$ (99,200)	$ 18,496,044
Tuition and related fees	3,991,983	-	-	3,991,983
Sales, rentals and services	1,276,350	2,400	-	1,278,750
Contract programs	722,718	-	(12,000)	710,718
Investment income	191,500	10,500	-	202,000
Gain on disposal of capital assets	25,000	-	-	25,000
Donations and contributions	41,500	4,500	-	46,000
Miscellaneous	8,200	-	-	8,200
Amortization of deferred capital contributions	1,250,000	-	-	1,250,000
	25,921,895	198,000	(111,200)	26,008,695
Expense:				
Salaries, wages and benefits	15,531,702	-	-	15,531,702
Supplies and services	5,597,788	174,500	(111,200)	5,661,088
Amortization	2,015,000	-	-	2,015,000
Utilities	1,262,510	-	-	1,262,510
Facilities rental	173,100	-	-	173,100
Cost of goods sold	520,000	-	-	520,000
Travel	554,345	20,000	-	574,345
Repairs and maintenance	200,650	-	-	200,650
Scholarships and bursaries	66,800	3,500	-	70,300
	25,921,895	198,000	(111,200)	26,008,695
Excess (deficiency) of revenue over expense	$ -	$ -	$ -	$ -

Note 22 Pension Costs

The College participates in the multi-employer Public Service Pension Plan and Management Employee Pension Plan. The expense for these pension plans is equivalent to the annual contributions of $862,764 for the year ended June 30, 2005 (2004 - $805,175).

At December 31, 2004, the Public Service Pension Plan reported a deficiency of $450,068,000 (2003 - $584,213,000).

At December 31, 2004, the Management Employees' Pension Plan reported a deficiency of $268,101,000 (2003 - $290,014,000).

Note 23 Comparative Figures

Certain comparative amounts have been reclassified where necessary to conform to the current year's financial statement presentation.

Note 24 Approval of Financial Statements

These financial statements were approved by the Board of Governors.

OLDS COLLEGE

FINANCIAL STATEMENTS

JUNE 30, 2005

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Olds College

I have audited the statement of financial position of Olds College as at June 30, 2005 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
October 7, 2005

OLDS COLLEGE

STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2005

	2005	2004
ASSETS		
Current:		
Cash and cash equivalents (Note 3)	$ 4,439,062	$ 3,430,031
Accounts receivable	2,728,933	3,020,302
Inventories (Note 4)	371,733	424,786
	7,539,728	6,875,119
Long-term contributions receivable	50,000	100,000
Long-term investments (Note 3)	5,826,694	5,746,107
Capital assets (Note 5)	27,488,536	28,876,488
	$ 40,904,958	$ 41,597,714
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 1,451,436	$ 1,198,597
Current portion of long-term debt (Note 6)	164,259	159,286
Deferred contributions (Note 9)	548,369	925,529
Unearned revenue (Note 8)	762,866	573,865
Accrued vacation pay	1,470,160	1,340,746
Deferred donations and endowment interest (Note 10)	1,805,688	1,611,671
	6,202,778	5,809,694
Deferred capital contributions (Note 12)	191,361	600,780
Long-term debt (Note 6)	3,657,315	3,821,573
Unamortized deferred capital contributions (Note 13)	15,811,453	16,835,279
	25,862,907	27,067,326
Net assets:		
Unrestricted net assets	1,321,592	875,132
Internally restricted (Note 14)	494,616	478,060
Invested in capital assets	7,855,510	8,060,353
Endowments (Note 15)	5,370,333	5,116,843
	15,042,051	14,530,388
	$ 40,904,958	$ 41,597,714

The accompanying notes are part of these financial statements.

OLDS COLLEGE

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2005

	2005		2004
	Budget	Actual	Actual
Revenue:			
Grants, Province of Alberta (Note 22)	$ 17,178,692	$ 17,357,992	$ 17,042,252
Other grants and training contracts	1,384,947	1,674,171	2,069,929
Tuition and related fees	5,615,732	5,485,593	4,871,863
Sales, rentals and other services (Note 16)	4,476,497	5,033,979	4,896,399
Investment earnings (Note 21)	526,840	835,371	761,159
Donations	957,175	708,155	872,261
Amortization of deferred capital contributions (Note 13)	1,856,500	1,972,800	1,866,756
	31,996,383	33,068,061	32,380,619
Expense:			
Salaries and benefits	19,314,190	19,618,927	18,746,455
Supplies and services	6,564,054	6,719,398	7,300,206
Scholarships and bursaries	217,500	226,806	221,999
Cost of goods sold	1,882,739	1,845,097	1,804,956
Utilities	1,370,000	1,228,821	1,314,172
Amortization of capital assets	2,947,900	3,079,304	2,866,665
Loss on disposal of capital assets	-	91,535	68,742
	32,296,383	32,809,888	32,323,195
Excess (deficiency) of revenue over expense	$ (300,000)	$ 258,173	$ 57,424

The accompanying notes are part of these financial statements.

OLDS COLLEGE

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2005

	2005						2004
	Unrestricted Net Assets	Internally Restricted Net Assets (Note 14)	Investment in Capital Assets (Note 5)	Total Operating Net Assets	Endowments (Note 15)	Total Net Assets	Total Net Assets
Excess (deficiency) of revenue over expense	$ 258,173	$ -	$ -	$ 258,173	$ -	$ 258,173	$ 57,424
Endowments contributions	-	-	-	-	197,800	197,800	351,544
Recapitalized endowment earnings	-	-	-	-	55,690	55,690	48,950
Board restrictions	(16,556)	16,556	-	-	-	-	-
Internally funded:							
Acquisition of capital assets	(835,511)	-	835,511	-	-	-	-
Repayment of long-term debt	(159,285)	-	159,285	-	-	-	-
Amortization of capital assets	1,151,646	- -	(1,151,646)	-	-	-	-
Disposal of capital assets	47,993	-	(47,993)	-	-	-	-
Increase (decrease) in net assets	446,460	16,556	(204,843)	258,173	253,490	511,663	457,918
Net asset balance, beginning of year	875,132	478,060	8,060,353	9,413,545	5,116,843	14,530,388	14,072,470
Net asset balance, end of year	$ 1,321,592	$ 494,616	$ 7,855,510	$ 9,671,718	$ 5,370,333	$ 15,042,051	$ 14,530,388

The accompanying notes are part of these financial statements.

OLDS COLLEGE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Operating activities:		
Excess (deficiency) of revenue over expense	$ 258,173	$ 57,424
Amortization of deferred capital contributions	(1,972,800)	(1,866,756)
Amortization of capital assets	3,079,304	2,866,665
Loss on disposal of capital assets	91,535	68,742
	1,456,212	1,126,075
Net change in non-cash working capital (Note 17)	732,533	(239,242)
Cash flow from operating activities	2,188,745	886,833
Investing activities:		
Proceeds (purchase) of long-term investments, net	(80,587)	15,820
Purchase of externally funded capital assets	(948,977)	(1,103,054)
Purchase of internally funded capital assets	(835,511)	(1,082,769)
Proceeds from disposal of capital assets	1,600	10,500
Cash applied to investing activities	(1,863,475)	(2,159,503)
Financing activities:		
Repayment of long-term debt	(159,285)	(179,583)
Decrease in contributions receivable	50,000	70,000
Capital contributions received	539,556	773,074
Endowments contributions received	253,490	400,494
Cash generated from financing activities	683,761	1,063,985
Increase (decrease) in cash and cash equivalents	1,009,031	(208,685)
Cash and cash equivalents, beginning of year	3,430,031	3,638,716
Cash and cash equivalents, end of year	$ 4,439,062	$ 3,430,031

The accompanying notes are part of these financial statements.

OLDS COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

Note 1 Authority

Olds College (the College) operates under the authority of the *Post-secondary Learning Act*, Statutes of Alberta 2003, Chapter P-19.5.

The College is a public institution preparing individuals for business management, production and technical careers in agriculture, horticulture and land management. In addition to granting diplomas and certificates, the College offers other programs in a variety of formats for the learning needs of the greater community.

The College is a registered charity and is exempt from payment of income tax under Section 149 of the *Income Tax Act*.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these statements requires the use of estimates, which may vary from actual results. Such estimates have been made using judgments determined by management. In management's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies summarized below.

(b) Statements

The 2004 financial information represents the consolidated accounts of Olds College, the Olds College Foundation, which operates under Part 9 of the *Alberta Companies Act* and the Olds College Centre for Innovation Inc., a wholly-owned subsidiary incorporated under the *Business Corporations Act* of Alberta. The Olds College Foundation and the Olds College Centre for Innovation Inc. became dormant entities effective July 1, 2004 when their activities were transferred to Olds College.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(c) Revenue Recognition

Operating grants, including grants from the Province of Alberta, are recognized as revenue, either in the period receivable, or, where a portion of the grant relates to a future period, the portion is deferred and recognized in the subsequent period.

Amounts received for tuition fees and sale of goods and services are deferred and recognized as revenue at the time the goods are delivered or the services are provided.

Externally restricted non-capital contributions are deferred and recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts may only be used for purposes designated by the external party.

Any externally restricted contributions containing stipulations that the amounts should be retained as net assets or that the contributions should not be expended, including endowments, are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property such as land.

Externally restricted capital contributions are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts of external contributions invested in capital assets are then transferred to unamortized deferred capital contributions. These amounts are recognized as revenue in the periods in which the related amortization expense of the funded capital assets are recorded.

Unrestricted cash donations are recognized as revenue when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

(d) Inventories

Inventory of bookstore merchandise is maintained using the first-in first-out method, and is valued at the lower of cost and net realizable value. Livestock is valued at net realizable value.

(e) Investments

Long-term investments are recorded at cost or amortized cost where applicable. Gains or losses on investments are recognized at realization, or when there is an other than temporary impairment in the value of an investment.

(f) Capital Assets

The Province of Alberta, Department of Infrastructure and Transportation transferred land, certain buildings and renovations to the College. The land is recorded at April 1978 fair value and the buildings and renovations and certain library materials are recorded at April 1978 depreciated replacement cost as determined by an independent appraisal. Acquisitions of capital assets since April 1, 1978 are recorded at cost, except for donated capital assets which are recorded at cost as approximated by fair value.

The Province of Alberta has been granted an option to purchase the whole or any part of the transferred land, buildings, and renovations for $1 per purchase.

Capital assets are amortized on a straight-line basis over the following estimated useful lives:

Site improvements	10-40 years
Buildings	15-40 years
Furnishings, equipment and computer hardware	2-15 years

(g) Employee Future Benefits

The College participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provide pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the pension plan. The College's portion of the pension plan's deficit or surplus is not recorded by the College.

(h) Fair Value of Financial Assets and Liabilities

Fair value of the College's cash, marketable securities, accounts receivable, accounts payable and accrued liabilities and vacation pay approximate their carrying values due to the relatively short periods to maturity for these instruments.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(i) Credit, Interest Rate and Market Risk

The College's accounts receivable are due from a diverse group of customers and are subject to normal credit risk.

Interest rate risk is the risk to the College's earnings that arise from the fluctuations in interest rates and the degree of volatility of these rates.

Market risk is the risk to the College's earnings that arises from the fluctuations and degree of volatility in the market value of its long-term investments.

Note 3 Cash and Investments

The amount held as long-term investments represents funds not available for current operations.

	2005	2004
Endowments (Note 15)	$ 5,370,333	$ 5,116,843
Deferred capital contributions (Note 12)	191,361	600,780
Internally restricted net assets, capital (Note 14)	265,000	28,484
Held as long-term investments	5,826,694	5,746,107
Cash and cash equivalents	4,439,062	3,430,031
Total cash and investments	$ 10,265,756	$ 9,176,138

Cash and investments are summarized as follows:

	2005		2004	
	Cost	Market Value	Cost	Market Value
Cash	$ (118,136)	$ (118,136)	$ (674,709)	$ (674,709)
Fixed income - bonds and deposit notes	3,262,070	3,428,180	2,862,189	2,946,856
Convertible debt	936,727	973,700	705,532	781,550
Equities and income trusts	6,185,095	6,820,305	6,283,126	6,467,083
	$ 10,265,756	$ 11,104,049	$ 9,176,138	$ 9,520,780

Note 3 Cash and Investments (continued)

Within the investment portfolio, there are securities at costs that are in excess of market value. These securities have not been written down to market value, because management has concluded, based on review of market information for the securities, that impairment is temporary.

Maturity dates are summarized as follows:

			2005	2004
	1 to 5 Years	5 Years or greater	Total	Total
Bonds and Debentures:				
Other provincial	$ -	$ 498,870	$ 498,870	$ 499,290
Other government and corporate bonds	1,016,030	1,747,170	2,763,200	2,362,899
	$ 1,016,030	$ 2,246,040	$ 3,262,070	$ 2,862,189
Yield	-	-	4.01%	4.97%
Fair Value	1,048,936	2,379,244	3,428,180	2,946,856
	$ 1,016,030	$ 2,246,040	$ 3,262,070	$ 2,862,189
Accrued Interest	8,506	10,881	19,387	37,825
	$ 1,024,536	$ 2,256,921	$ 3,281,457	$ 2,900,014

Realized return includes interest and dividend income and gains and losses on disposal of investments.

The Board of Governors, through its Human Resources, Finance and Technology Committee, monitors the performance of the investment portfolio. The prime objective and guiding principles of the College's investment policy is to enhance the value of the funds, and at the same time provide a dependable, increasing source of income to support the operating budget, while preventing undue exposure to risk. The four criteria that guide the College's investment policy are safety, growth, liquidity and congruence with our mission. The investments are managed on a day-to-day basis by College staff and an external investment manager.

The investment fund policy allows for all of the funds to be invested in fixed income, short-term investments and equity investments.

Note 4 Inventories

	2005	2004
Livestock, feed and supplies	$ 243,537	$ 303,926
Bookstore merchandise and other	128,196	120,860
	$ 371,733	$ 424,786

Note 5 Capital Assets

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 2,338,320	$ -	$ 2,338,320	$ 2,332,859
Site improvements	2,880,205	855,196	2,025,009	2,144,731
Buildings	50,118,967	32,450,069	17,668,898	19,123,006
Furnishings and equipment	13,472,746	8,016,437	5,456,309	5,275,892
	$ 68,810,238	$ 41,321,702	$ 27,488,536	$ 28,876,488

Capital assets have been funded as follows:

	2005	2004
Unamortized deferred capital contributions	$ 15,811,453	$ 16,835,279
Internally funded investment in capital assets	7,855,510	8,060,353
Long-term debt	3,821,573	3,980,856
	$ 27,488,536	$ 28,876,488

Note 6 Long-term Debt

The College acquired long-term debt to finance the construction of student residence town houses. Phase one construction was completed during September 1998 and Phase Two was completed in September 1999.

Phase one is partially funded through a debt instrument amortized over 15 years ending June 11, 2018, with a monthly resetting banker's acceptance interest rate. This rate was 2.558% at June 30, 2005 (2004 - 2.055%).

Phase two is funded through a debenture from Alberta Capital Finance Authority that is due April 1, 2024 and has a fixed interest rate of 5.75%.

The College also purchased 613 acres of farm land during February 2003. This land was partially funded through a 5.625% fixed interest rate debenture from Alberta Capital Finance Authority that is due February 14, 2018. This loan is secured by the farm land.

Note 6 Long-term Debt (continued)

The fair value of the phase one loan is equal to its carrying value due to the nature of the loan. The fair values of the phase two and the farm land loans are not readily determinable due to the lack of a market for these loans.

June 30, 2005 long-term debt:

	Outstanding Principal		Mortgage Payment Requirements					
	Long term	Current	2006	2007	2008	2009	2010	Future Years
Phase One	$ 1,284,000	$ 72,000	$ 139,741	$ 146,697	$ 142,579	$ 140,420	$ 145,284	$ 1,124,273
Phase Two	1,685,486	52,805	152,756	152,756	152,756	152,756	152,756	2,138,589
Farm land	687.829	39,454	80,364	80,364	80,364	80,364	80,364	642,911
	$ 3,657,315	$ 164,259	$ 372,861	$ 379,817	$ 375,699	$ 373,540	$ 378,404	$ 3,905,773

Interest of $221,367 (2004 - $220,376) has been charged to expense during the year.

Note 7 Interest Rate Swap

The College entered into an interest rate swap in 2003, a derivative financial instrument, for risk management purposes. The interest rate swap is used to manage the College's exposure to fluctuations in interest rates with its phase one student residence long-term debt. The College is not using hedge accounting for this interest rate swap. Therefore, the interest rate swap is recorded on the statement of financial position at its fair value. Gains or losses are recorded on the statement of operations.

The notional amount of the interest rate swap at June 30, 2005 is $1,356,000 (2004 - $1,428,000) at a fixed interest rate of 5.09% which expires in 2018. The fair value of the interest rate swap is a liability of $77,219 (2004 - asset of $20,247). Fair value is determined by the College's financial institution which has arranged the interest rate swap.

Note 8 Unearned Revenue

	2005	2004
Tuition fees	$ 358,837	$ 312,962
Research	243,185	119,143
Program delivery/Extension services	79,299	49,781
Prepaid lease revenue	42,560	63,840
Other	38,985	28,139
	$ 762,866	$ 573,865

Note 9 Deferred Contributions

	2005	2004
Research grants	$ 380,322	$ 294,576
Education program delivery grant	168,047	202,953
Infrastructure grant	-	428,000
	$ 548,369	$ 925,529

Note 10 Deferred Donations and Endowment Interest

Deferred donations and endowment interest represent the unexpended portion of amounts received for specific purposes.

	Balance, beginning of year	Contributions and fees	Investment Revenue	Expenses	Balance, End of year
Restricted endowment income:					
Student awards	$ 214,211	$ -	$ 201,693	$ 88,319	$ 327,585
Programs	115,357	-	86,808	50,204	151,961
Faculty development	-	-	109,067	104,899	4,168
Other	57,135	-	16,408	2,429	71,114
	386,703	-	413,976	245,851	554,828
Restricted donation income:					
Student awards	69,846	131,619	-	119,100	82,365
Programs	528,409	86,890	-	145,703	469,596
Staff development	42,548	-	-	-	42,548
Capital assets	72,089	9,900	-	-	81,989
Other	512,076	208,198	-	145,912	574,362
	1,224,968	436,607	-	410,715	1,250,860
Gifts-In-Kind	-	308,646	-	308,646	-
	$ 1,611,671	$ 745,253	$ 413,976	$ 965,212	$ 1,805,688

Note 11 Pension Expense

The pension expense recorded in these financial statements is equivalent to the College's annual contributions payable of $1,086,374 for the year ended June 30, 2005 (2004 - $808,981).

At December 31, 2004, the Local Authorities Pension Plan reported a deficiency of $1,288,924,000 (2003 deficiency - $1,453,487,000).

Note 12 Deferred Capital Contributions

	2005	2004
Received during the year:		
School of Innovation capital grants	$ 505,186	$ 795,084
Donated equipment	35,206	16,201
	540,392	811,285
Transfers to unamortized deferred capital contributions:		
School of Innovation capital	911,976	1,041,477
Heavy duty apprentice equipment	1,792	45,376
Donated equipment	35,206	16,201
	948,974	1,103,054
Transfers to revenue:		
Heavy duty apprentice grant	837	-
Furniture, equipment and computers grant	-	38,212
	837	38,212
(Decrease) increase during the year	(409,419)	(329,981)
Balance, beginning of year	600,780	930,761
Balance, end of year	$ 191,361	$ 600,780

	2005	2004
The balance is comprised of:		
Agricultural mechanics equipment	$ 121,585	$ 124,214
School of Innovation buildings and equipment	69,776	476,566
	$ 191,361	$ 600,780

Note 13 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions are amounts of external capital contributions, used to fund capital asset purchases, which will be recognized as revenue in the future.

	2005	2004
Balance, beginning of year	$ 16,835,279	$17,598,981
Amount transferred from deferred capital contributions (Note 12)	948,974	1,103,054
Amortization of deferred capital contributions	(1,972,800)	(1,866,756)
Balance, end of year	$ 15,811,453	$ 16,835,279

Note 14 Internally Restricted Net Assets

Net assets internally restricted are amounts set aside by the College's Board of Governors that are to be used for only designated purposes. The Board has placed internal restrictions on operating net assets as follows:

	2005	2004
Capital:		
Farm capital renewal	$ 150,000	$ 28,484
Vehicle capital renewal	115,000	-
	265,000	28,484
Non-capital:		
Foundation projects	179,012	406,519
Departmental projects	-	31,057
Extension program development	39,604	-
Scholarships	11,000	12,000
	229,616	449,576
	$ 494,616	$ 478,060

Note 15 Endowments

Endowments consist of restricted donations to the College, the principal of which is required to be maintained intact in perpetuity. The investment income generated from endowments must be used in accordance with the various purposes established by the donors. Benefactors as well as College policy stipulate that the economic value of the endowments must be protected by limiting the amount of income that may be expended and reinvesting unexpended income.

	Principal					
	June 30, 2004 Balance	Donations	Investment Income Capitalized	June 30, 2005 Balance	Expendable Investment Income Earned	Investment Income Expended
Student awards	$2,381,773	$197,390	$7,849	$2,587,012	$201,693	$88,319
Programs	1,083,199	410	20,574	1,104,183	86,808	50,204
Faculty Development	1,525,129	-	27,267	1,552,396	109,067	104,899
Other	126,742	-	-	126,742	16,408	2,429
	$5,116,843	$197,800	$55,690	$5,370,333	$413,976	$245,851

Note 16 Sales, Rentals and Other Services

Sales, rentals and other services revenue are summarized as follows:

	2005	2004
Conference and food services	$ 1,527,779	$ 1,549,173
Residence	1,232,830	1,189,852
Bookstore	802,652	743,845
Rentals and other	493,624	554,946
Academic program ancillary	395,589	441,802
Farm operations	581,505	416,781
	$ 5,033,979	$ 4,896,399

Note 17 Net Changes in Non-cash Working Capital

	2005	2004
Decrease (increase) in accounts receivable	$ 291,369	$ (464,474)
Decrease (increase) in inventories	53,053	(75,466)
Increase (decrease) in accounts payable and accrued liabilities	252,839	(205,249)
(Decrease) increase in deferred contributions	(377,160)	23,651
Increase (decrease) in unearned revenue	189,001	(11,050)
Increase in accrued vacation pay	129,414	125,554
Increase in deferred donations and endowment interest	194,017	367,792
	$ 732,533	$ (239,242)

Note 18 Salaries and Benefits

The Province of Alberta's Treasury Board Salary and Benefits Disclosure Directive dated July 6, 2004 requires the College to disclose certain salaries and benefits. These salaries and benefits are as follows:

	2005				2004
	Base Salary[1]	Other Cash Benefits[2]	Other Non-cash Benefits[3]	Total	Total
Chairman of the Board	$ -	$ 14,942	$ 674	$ 15,616	$ 7,523
Board members	-	30,767	1,136	31,903	29,385
President	151,421	10,670	27,223	189,314	170,639
Vice-President, Academic	121,629	190	18,480	140,299	132,521
Vice-President, Student and Support Services	119,501	-	16,318	135,819	130,465
Vice-President, Advancement[4]	95,981	8,175	17,103	121,259	-
Associate Vice-President[5]	48,194	107	14,723	63,024	-
	$ 536,726	$ 64,851	$ 95,657	$ 697,234	$ 470,533

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include honoraria, car allowances, bonuses, vacation payments and health and wellness allowances.

(3) Other non-cash benefits include the employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental and vision coverage, group life insurance, employment insurance and tuition fees.

(4) The position of Vice-President Advancement was created as of September 1, 2004.

(5) The position of Associate Vice-President was created as of January 1, 2005.

Note 19 Funds Held on Behalf of Others

Olds College holds funds in trust for several organizations as follows:

	2005	2004
Student Association	$ 741,734	$ 574,848
Big Country Educational Consortium	570,068	513,609
Other	225,109	144,702
	$ 1,536,911	$ 1,233,159

These amounts are not included in the financial statements.

Note 20 Contingent Losses

The College, in the conduct of its normal activities, is a defendant in a number of legal proceedings. While the ultimate outcome of these proceedings cannot be predicted at this time, it is the opinion of the administration that adequate provision for these proceedings has been made in the College's accounts. It is believed that the resolution of the proceedings will not have a material effect on the financial position of the College, however, should any additional loss result from the resolution of these proceedings, such amounts would be expensed as the related amounts become known to the College.

Note 21 Investment Earnings

	2005	2004
Restricted investment income on resources held for endowment	$ 469,667	$ 400,619
Unrestricted investment income	589,520	544,012
Total investment income	1,059,187	944,631
Transfer (to) from deferred donations and endowment interest	(168,126)	(134,522)
Amounts credited directly to endowment principal	(55,690)	(48,950)
	$ 835,371	$ 761,159

Note 22 Related Party Transactions

The College is a Provincial Corporation as all members of the Board of Governors are appointed either by statute or by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Eduction. Transactions between the College and the Province are disclosed in the Statement of Operations and Statement of Financial Position and are as follows:

	2005		
	Revenue	Deferred Contributions	Deferred Capital Contributions and UDCC
Operating and Performance grant	$ 15,409,912	$ -	$ -
Access Funding	587,600	(47,000)	-
Extension Services grants	286,120	(11,687)	-
Infrastructure renewal	534,000	(428,000)	-
School of Innovation	271,399	85,746	9,603
Miscellaneous grants	268,961	23,781	(837)
	$ 17,357,992	$ (377,160)	$ 8,766

	2004		
	Revenue	Deferred Contributions	Deferred Capital Contributions and UDCC
Operating and Performance grant	$ 14,734,476	$ -	$ -
Access Funding	852,933	122,000	-
Extension Services grants	191,061	57,242	-
Infrastructure renewal	797,101	53,898	-
Centre for Innovation	251,781	(233,201)	108,911
Miscellaneous grants	214,900	23,712	-
	$ 17,042,252	$ 23,651	$ 108,911

During the year, Olds College had business transactions with Big Country Educational Consortium, Southern Alberta Institute of Technology, Northern Alberta Institute of Technology, Red Deer College, Lakeland College, University of Calgary, University of Alberta and the University of Lethbridge. These transactions were at market prices on normal terms of purchase and sale and have been included in the Statement of Operations.

Note 23 Comparative Figures

Certain 2004 figures have been reclassified to conform to the 2005 presentation.

Note 24 Budget

The College is required to submit a budget, approved by the Board of Governors of the College, to the Minister of Advanced Education. The College budget for the year ended June 30, 2005 was approved by the Board of Governors on June 24, 2004.

Note 25 Approval of Financial Statements

The Board of Governors approved these financial statements.

PORTAGE COLLEGE
FINANCIAL STATEMENTS
JUNE 30, 2005

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1 - Continuing Education Programming

AUDITOR
GENERAL
Alberta

AUDITOR'S REPORT

To the Board of Governors of Portage College

I have audited the statement of financial position of Portage College as at June 30, 2005 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 30, 2005

PORTAGE COLLEGE

STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2005

	2005	2004
ASSETS		
Current:		
Cash and cash equivalents (Note 3)	$ 2,602,182	$ 2,900,002
Investments (Note 4)	799,962	736,237
Accounts receivable (Note 5)	749,233	1,028,440
Inventories (Note 6)	169,617	195,320
Prepaid expenses	129,403	156,226
	4,450,397	5,016,225
Non-current cash and cash equivalents (Note 3)	1,014,128	749,256
Capital assets (Note 7)	31,260,707	32,361,974
	$ 36,725,232	$ 38,127,455
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 745,748	$ 929,073
Accrued vacation pay	1,073,093	1,036,811
Unearned revenue (Note 8)	218,611	504,615
Deferred contributions (Note 9)	805,456	1,014,626
	2,842,908	3,485,125
Deferred capital contributions (Note 10)	72,618	214,320
Unamortized deferred capital contributions (Note 11)	27,890,534	28,778,859
	30,806,060	32,478,304
Net assets:		
Unrestricted net assets	783,045	706,657
Internally restricted net assets (Note 12)	1,280,041	914,776
Invested in capital assets	3,370,174	3,583,116
	5,433,260	5,204,549
Endowments (Note 3)	485,912	444,602
	5,919,172	5,649,151
	$ 36,725,232	$ 38,127,455

The accompanying notes and schedule are part of these financial statements.

PORTAGE COLLEGE

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2005

	2005		2004
	Budget (Note 23)	Actual	Actual
Revenue:			
Grants and provincial government contributions (Note 21)	$ 14,568,621	$ 15,107,679	$ 14,430,519
Tuition and related fees	3,250,732	2,999,562	2,830,966
Contract income	871,495	1,516,735	1,483,549
Sales, rentals and services (Note 13)	1,883,111	1,737,132	1,765,300
Donations and contributions	47,365	53,981	159,610
Investment income (Note 14)	105,985	134,296	126,609
Amortization of deferred capital contributions (Note 11)	1,044,986	1,030,027	1,039,786
Miscellaneous	163,800	173,280	279,994
	21,936,095	22,752,692	22,116,333
Expense (Note 15):			
Salaries, wages and benefits (Note 16)	13,430,547	14,060,784	13,534,231
Supplies and services	5,585,920	5,913,741	5,586,079
Utilities	822,668	714,673	713,326
Scholarships and bursaries	126,925	103,585	105,439
Amortization	1,799,720	1,731,198	1,725,091
	21,765,780	22,523,981	21,664,166
Excess of revenue over expense	$ 170,315	$ 228,711	$ 452,167

The accompanying notes and schedule are part of these financial statements.

PORTAGE COLLEGE

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2005

	2005					2004
	Unrestricted Net Assets	Internally Restricted Net Assets (Note 12)	Invested in Capital Assets	Endowments (Note 3)	Total	Total
Excess of revenue over expense	$ 228,711	$ -	$ -	$ -	$ 228,711	$ 452,167
Endowment contributions received	-	-	-	41,310	41,310	64,602
Transfers for:						
Internally restricted net assets (Note 12)	(365,265)	365,265	-	-	-	-
Amortization of internally funded capital assets	701,171	-	(701,171)	-	-	-
Acquisition of internally funded capital assets	(496,393)	-	496,393	-	-	-
Net book value of capital assets disposed	8,164	-	(8,164)	-	-	-
Increase in net assets	76,388	365,265	(212,942)	41,310	270,021	516,769
Net assets, beginning of year	706,657	914,776	3,583,116	444,602	5,649,151	5,132,382
Net assets, end of year	$ 783,045	$ 1,280,041	$ 3,370,174	$ 485,912	$ 5,919,172	$ 5,649,151

The accompanying notes and schedule are part of these financial statements.

PORTAGE COLLEGE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Cash generated from (used by):		
Operating activities:		
Excess of revenue over expense	$ 228,711	$ 452,167
Non-cash transactions		
Amortization of deferred capital contributions (Note 11)	(1,030,027)	(1,039,786)
Amortization of capital assets	1,731,198	1,725,091
Gain on sale of capital assets	(511)	(10,170)
	929,371	1,127,302
Changes in non-cash working capital (Note 18)	(310,484)	571,236
Cash generated from operating activities	618,887	1,698,538
Investing activities:		
Net increase in non-current cash	(264,872)	(309,772)
Net increase in investments	(63,725)	(332,304)
Acquisition of capital assets - internally funded	(496,393)	(720,357)
Acquisition of capital assets - externally funded	(141,702)	(669,708)
Proceeds on sale of capital assets	8,675	27,000
Cash applied to investing activities	(958,017)	(2,005,141)
Financing activities:		
Capital contributions (Note 10)	-	884,028
Endowment contributions - external	41,310	64,602
Cash generated from financing activities	41,310	948,630
Increase (decrease) in cash and cash equivalents	(297,820)	642,027
Cash and cash equivalents at beginning of year	2,900,002	2,257,975
Cash and cash equivalents at end of year	$ 2,602,182	$ 2,900,002

The accompanying notes and schedule are part of these financial statements.

PORTAGE COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

Note 1 Authority and Purpose

Portage College (the "College") operates under the authority of the Post -Secondary Learning Act, Chapter P-19.5, Statutes of Alberta, 2003.

Primarily serving communities in northeastern Alberta, the College provides instruction and training to assist adult learners through academic upgrading programs and career entry training in business, human services, trades, technical and service industries. The College maintains a special interest in providing programs to aboriginal communities.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

In preparing the College's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Management believes its estimates to be appropriate, however, actual results could differ from these estimates.

(a) Revenue Recognition

(i) Unrestricted Contributions

Unrestricted operating grants and contributions are recognized as revenue in the period when receivable.

(ii) Restricted Contributions

Externally restricted non-capital grants and contributions are deferred and recognized as revenue in the period when related expenses are incurred.

Externally restricted capital contributions are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing externally funded capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded.

Restricted contributions for the purchase of capital assets, that are not subject to amortization, are recorded as deferred capital contributions in the period in which they are received and, when expended, are recognized as direct increases in net assets.

Externally restricted contributions for endowment purposes are not recognized as revenue, but are recorded as direct increases in net assets.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(a) (iii) Investment Income

Investment income subject to external restrictions is, depending on the nature of the restrictions, recorded as a direct increase to net assets, or is deferred and recognized as revenue in the period the related expenses are incurred.

Unrestricted investment income is recognized in the year it is earned.

(iv) Donations

Donations and contributions in kind are recorded at fair value when such value can reasonably be determined.

(v) Program Delivery

Revenue from tuition fees, education contract programs and sale of goods and services is recognized as revenue in the period in which the goods are delivered or the services are provided.

Revenue from long-term education contracts is determined on the percentage of completion method. Provision is made for all anticipated losses as soon as they become evident.

(b) Investments

All investments are held as temporary investments and are valued at the lower of cost or market.

(c) Inventories

Inventories for resale are valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. Inventories held for consumption are valued at the lower of cost and replacement value.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Capital Assets and Collections

Capital assets are recorded at cost, except donated assets which are recorded at fair value, when fair value can be reasonably determined.

Capital assets are amortized on a straight-line basis over the following estimated average useful lives:

Buildings and site improvements	20 - 40 years
Trailers	20 years
Furniture, vehicles and other equipment	5 - 10 years
Library holdings	5 - 10 years
Computer equipment	4 years
Computer (Agresso) software	5 years
Rental books	2 years
Leasehold improvements	Life of lease

Art collections are recorded at cost and are not amortized. Donated artwork collections are recorded at fair value, when determinable.

(e) Pension Plan Expense and Obligation

The College participates in the Public Service Pension Plan and the Management Employees Pension Plan. These pension plans are multiemployer defined benefit pension plans, that provide pensions for the College's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the cost of employer contributions, for its employees during the year, based on rates which are expected to provide for benefits payable under the respective pension plan. The College's portion of the pension plans' deficit or surplus is not recorded by the College.

(f) Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments.

Note 3 Cash and cash equivalents and Endowments

	2005		2004	
	Carrying Value	Market Value	Carrying Value	Market Value
Consolidated Cash Investment Trust Fund	$ 1,842,380	$ 1,842,380	$ 1,952,605	$ 1,952,605
Bankers Acceptances and Treasury Bills	104,576	104,576	129,780	129,780
Cash	1,669,354	1,669,354	1,566,873	1,566,873
	3,616,310	3,616,310	3,649,258	3,649,258
Held as non-current cash and cash equivalents	(1,014,128)	(1,014,128)	(749,256)	(749,256)
Held as cash and cash equivalents	$ 2,602,182	$ 2,602,182	$ 2,900,002	$ 2,900,002

The Consolidated Cash Investment Trust Fund ("CCITF") of the Province of Alberta is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on the prevailing market interest rates.

Bankers Acceptances and Government of Canada Treasury Bills all mature within one year. The weighted average effective yield of 1.97% (2004 - 1.97%) represents the rate which discounts future cash receipts to the carrying value at June 30, 2005.

Note 3 Cash and cash equivalents and Endowments (continued)

The amount held as non-current cash and cash equivalents represents funds not available for current operations and includes endowments and net assets internally restricted for capital purposes, as outlined below.

	2005	2004
Endowments [1]	$ 485,912	$ 444,602
Board restricted capital funds (Note 12)	455,599	90,334
Deferred Capital Contributions	72,617	214,320
	$ 1,014,128	$ 749,256

[1] Endowments are comprised of the following:

	2005	2004
Board of Governors Award	$ 340,000	$ 340,000
Trans Canada-Student Bursary	25,000	25,000
Northlands Park Achievement Award	20,000	20,000
Alberta Pacific Bursary	20,000	20,000
Xerox- Outstanding Business Careers Student Award	3,000	3,000
Alberta Pacific Native Cultural Arts Award	2,000	2,000
Fundraising Scholarship	75,912	34,602
	$ 485,912	$ 444,602

Of the net assets restricted for endowment purposes, $387,500 (2004 - $387,500) is subject to externally imposed restrictions stipulating that the resources be maintained permanently. The Board of Governors has internally restricted $98,412 (2004 - $57,102) of unrestricted net assets to be held for endowment purposes. The purpose of the endowments are to award student scholarships and bursaries.

Note 4 Investments

	2005		2004	
	Carrying Value	Market Value	Carrying Value	Market Value
Government of Canada bonds	$ 292,528	$ 300,039	$ 236,158	$ 236,158
Provincial bonds	110,222	116,469	148,356	148,356
Corporate bonds	146,968	152,923	142,426	142,877
Equities	250,244	298,678	209,297	245,856
	$ 799,962	$ 868,109	$ 736,237	$ 773,247

The College recognizes the need to effectively manage all financial resources. The College employs cash and fund management practices, in order to maximize the amounts available for investment. Donations and surplus cash will be invested in order to maximize return while minimizing loss.

The Board of Governors has approved investment guidelines on asset mix, diversification, quality, liquidity and nature of securities, and term constraints.

Government of Canada bonds have a weighted average term to maturity of 4.92 years (2004 - 5.53 years) and stated interest rate of 4.51% (2004 - 4.81%). The average effective yield on these securities is 3.8% (2004 - 4.12%).

Provincial bonds have a weighted average term to maturity of 8.58 years (2004 - 7.89 years) and stated interest rate of 4.35% (2004 - 4.77%). The average effective yield on these securities is 3.76% (2004 - 3.77%).

Corporate bonds have a weighted average term to maturity of 5.04 years (2004 - 7.47 years) and stated interest rate of 5.02% (2004 - 5.67%). The average effective yield on these securities is 4.54% (2004 - 5.14%).

Term to maturity of bonds is based upon the contractual maturity of the security. Effective yields represent the rate that discounts future cash receipts to the carrying value at June 30, 2005. Risk is reduced by the requirement that all bonds must be rated "A" or better by the Dominion Bond Rating Service or an equivalent recognized rating agency.

Note 5 Accounts Receivable

	2005	2004
Accounts receivable	$ 916,086	$ 1,043,080
Allowance for doubtful accounts	(166,853)	(14,640)
	$ 749,233	$ 1,028,440

Note 6 Inventories

	2005	2004
Bookstore and native cultural art supplies	$ 135,878	$ 157,870
Cafeteria supplies	20,218	26,709
Printing supplies	5,750	3,596
Other	7,771	7,145
	$ 169,617	$ 195,320

Note 7 Capital Assets

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings and site improvements	$32,016,135	$ 4,221,241	$ 27,794,894	$ 28,477,181
Land	500,000	-	500,000	500,000
Rental books	370,826	363,117	7,709	52,213
Computer equipment	2,830,592	2,284,175	546,417	635,404
Furniture	36,671	28,948	7,723	11,187
Vehicles	532,954	379,508	153,446	187,966
Other equipment	1,046,098	484,532	561,566	540,354
Library holdings	614,456	380,926	233,530	246,499
Trailers	768,935	210,132	558,803	597,250
Computer (Agresso) software	1,199,539	844,912	354,627	456,718
Artwork	346,300	-	346,300	346,300
Leasehold improvements	565,371	369,679	195,692	310,902
	$40,827,877	$ 9,567,170	$ 31,260,707	$ 32,361,974

Note 8 Unearned Revenue

	2005	2004
Contract programs	$ 17,328	$ 260,482
Tuition fees	194,151	223,863
Other	7,132	20,270
	$ 218,611	$ 504,615

Note 9 Deferred Contributions

	2005	2004
Restricted contributions received during the period:		
Conditional grants	$ 1,568,215	$ 2,551,225
Restricted endowment investment income (Note 14)	13,378	10,849
Donations and Contributions	741	13,800
	1,582,334	2,575,874
Transferred to revenue:		
Conditional grants	(1,699,615)	(1,329,111)
Restricted endowment investment income (Note 14)	(10,910)	(11,388)
Donations and Contributions	(101)	-
	(1,710,626)	(1,340,499)
Transferred to payable to the Government of Alberta	(80,878)	(88,235)
Transferred to deferred capital contributions (Note 10)	-	(884,028)
Increase (decrease) during the year	(209,170)	263,112
Balance at beginning of year	1,014,626	751,514
Balance at end of year	$ 805,456	$ 1,014,626

Deferred contributions at the end of the year are restricted for the following purposes:

	2005	2004
Deferred maintenance	$ 230,365	$ 526,452
Program funding	443,729	433,874
Student scholarships and bursaries	18,051	15,583
One time equipment and facility funding	112,671	38,717
Student Life Services	640	-
	$ 805,456	$ 1,014,626

Note 10 Deferred Capital Contributions

	2005	2004
Donations received during the year	$ -	$ -
Transferred from deferred contributions (Note 9)	-	884,028
	-	884,028
Transferred to unamortized deferred capital contributions (Note 11)	(141,702)	(669,708)
Increase (decrease) during the year	(141,702)	214,320
Balance at beginning of year	214,320	-
Balance at end of year	$ 72,618	$ 214,320

Note 11 Unamortized Deferred Capital Contributions

	2005	2004
Balance at beginning of year	$ 28,778,859	$ 29,148,937
Transferred from deferred capital contributions (Note 10)	141,702	669,708
Less amount amortized to revenue	(1,030,027)	(1,039,786)
Balance at end of year	$ 27,890,534	$ 28,778,859

Note 12 Internally Restricted Net Assets

Net assets internally restricted by the Board represent amounts set aside by the College's Board of Governors to be used for the following designated purposes. These amounts are not available for other purposes without approval of the Board.

	2005	2004
Capital:		
Campus Development Fund	$ 55,470	$ 55,470
Housing Development Fund	4,014	4,014
Forestry Program	-	30,850
Steamfitter/Pipefitter Lab	396,115	-
	455,599	90,334
Operating:		
Program Development	391,875	391,875
Professional Services - Transition Fund	234,479	234,479
Financially Assisted Education Leave	100,000	100,000
Emergency Facility Repair	78,088	78,088
Student Needs - Quality of life	20,000	20,000
	824,442	824,442
	$ 1,280,041	$ 914,776

Note 13 Sales, Rentals and Services

	Revenue	Direct Expense	2005 Net	2004 Net
Food Services	$ 377,979	$ 403,796	$ (25,817)	$ (11,246)
Housing	638,837	574,279	64,558	40,730
Bookstore and Native Art Sales	684,733	581,347	103,386	107,416
Community Use	35,583	38,045	(2,462)	(2,307)
	$ 1,737,132	$ 1,597,467	$ 139,665	$ 134,593

In addition to the direct expenses, facility amortization related to sales, rentals and services for the year was $186,304 (2004 - $186,304). This allocation was calculated based on square footage occupied.

Note 14 Investment Income

	2005	2004
Investment earnings	$ 136,764	$ 126,070
Add amounts transferred from deferred contributions (Note 9)	10,910	11,388
Less amounts transferred to deferred contributions (Note 9)	(13,378)	(10,849)
Total investment income recognized as revenue	$ 134,296	$ 126,609

Note 15 Expense by Function

	2005	2004
Instruction - Credit	$ 9,058,286	$ 8,294,682
Instruction - Non-Credit	227,514	495,635
Facilities operations and maintenance	4,555,833	4,462,620
Institutional support	2,392,895	2,521,906
Academic support	1,626,199	1,485,077
Student services	2,074,668	1,836,132
Ancillary services (Note 13)	1,783,771	1,817,019
Computing, network and communications	757,846	703,888
Fund raising	46,969	47,207
Total Expenses	$ 22,523,981	$ 21,664,166

Instruction encompasses all formal education and instructional program elements. Facilities operations and maintenance includes all costs of the daily operations of the buildings occupied by the College, property taxes and amortization on capital equipment and buildings. Institutional support includes all activities that provide institution-wide support to other programs. Academic support includes all activities that directly support the education and instruction elements such as academic administration, library and audio-visual services. Student services includes all activities or services to the student body of the institution such as counselling, recreation and registrar's office. Ancillary services include direct and indirect costs of operating food services, native art sales, community use, housing and bookstore. Computing, network and communications includes all costs expended to maintain the College's hardware and software. Fund raising includes guest speaker honoraria, event promotion and all other direct costs associated with the events.

Note 16 Salaries, Wages and Benefits

The following information is prepared in accordance with Treasury Board Directive 03/2004:

	2005				2004
	Salary[1]	Other Cash Benefits[2]	Other Non Cash Benefits[3]	Total	Total
Board Chair	$ -	$ 4,020	$ 90	$ 4,110	$ 2,184
Board Members (9 members)	-	11,616	52	11,668	10,259
President[4]	128,410	30,092	19,275	177,777	161,240
Vice President of Academics	103,933	1,572	16,532	122,037	117,624
Vice President of Student and College Services [5]	93,756	2,699	18,113	114,568	111,897
Dean of Community and Industry Training	87,000	-	17,662	104,662	111,311
Dean of Academic Upgrading [6]	-	-	-	-	56,131
Assoc. Dean of Learning and Employment Foundations [7]	118,672	-	24,760	143,432	-
Dean of Health, Business and Human Services	87,001	422	16,766	104,189	97,681
Manager Finance and Administration [8]	63,370	-	13,281	76,651	92,713
Registrar	77,280	-	16,251	93,531	87,679

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include bonuses, overtime, lump sum payments, honoraria, and pay in lieu of benefits.

(3) Other non cash benefits include the College's share of all employee benefits and contributions or payments made on behalf of employees, including pension, health care, dental coverage, vision coverage, out of country medical insurance, group life insurance, accidental disability and dismemberment insurance, long and short term disability plans, professional and club memberships and professional development.

(4) The President 's other benefits include standard benefits available to all College employees as well as additional items negotiated in his contract including: professional development allotment, memberships and severance agreement. An automobile was also provided, with no dollar amount included in the other non cash benefits figure.

(5) The position of Vice President of Student and College Services was occupied by two incumbents during the year.

(6) This position was deleted in 2004-05 and has been replaced with two Associate Deans of Learning and Employment Foundations.

(7) Starting from 2004-05, the position of 'Dean of Academic Upgrading' has been replaced by two 'Associate Dean of Learning and Employment Foundations' positions. No comparative figures are available as these two positions are new in the year. One position was occupied for the full year and the other was occupied for 5 months.

(8) Two incumbents occupied this position during the fiscal 2004-05 year; the position was vacant for three months.

Note 17 Pension Costs

The College participates in two multiemployer pension plans. the Public Service Pension Plan (PSPP) and the Management Employees Pension Plan (MEPP). The expense for these plans is $798,063 for the year ended June 30, 2005 (2004 - $752,647).

Public Service Pension Plan

At December 31, 2004, the PSPP reported a deficiency of $450,068,000 (2003 - $584,213,000).

Management Employee Pension Plan

At December 31, 2004, the MEPP reported a deficiency of $268,101,000 (2003 - $290,014,000).

Note 18 Changes in Non-cash Working Capital

	2005	2004
Accounts receivable	$ 279,207	$ (231,353)
Inventories	25,703	(26,137)
Prepaid expenses	26,823	(41,126)
Accounts payable and accrued liabilities	(183,325)	503,676
Accrued vacation pay	36,282	(182,369)
Unearned revenue	(286,004)	285,433
Deferred contributions	(209,170)	263,112
	$ (310,484)	$ 571,236

Note 19 Commitments

Future minimum annual lease payments under operating leases and other commitments are:

2006	$	187,049
2007	$	76,655
2008	$	69,026
2009	$	8,350
2010 and thereafter	$	8,350

Note 20 Art Collection

The College's art collection is comprised of:

(a) Native Cultural Arts Museum Collection

The Native Cultural Arts Museum Collection consists of Aboriginal art and craft works, which have been collected from across Canada and the United States. The majority of the pieces were purchased from artists and dealers. Students, staff and guest instructors have donated numerous pieces to the Collection. Articles from the Collection are used for displays, both on and off campus, and for instructional support in the Native Cultural Arts programs. All pieces in the Collection are numbered, photographed and described in the Collection records.

(b) Other Art Works

The College has also acquired, either through purchases or donation, other art works, which are displayed throughout the College buildings. Approximately 85% of the art display depicts native heritage. The mediums include watercolor, silkscreens, black and white photography, color photography and reproduced prints. The remainder of the display depicts the surrounding areas and peoples of Lac La Biche.

Note 21 Related Parties

a) Significantly Influenced Organizations

(i) Lac La Biche Childcare Association

The College exercises significant influence over the Lac La Biche Childcare Association (the "Childcare Association") through a contractual arrangement whereby the children of students of the College are given priority placement and a maximum enrolment fee of $740 (2004 - $690) per month per child.

The Childcare Association is incorporated under the Societies Act of the Province of Alberta and exists to provide daycare services to Lac La Biche and surrounding communities.

The College, as owner of the buildings, provides the Childcare Association, at no charge, the space needed to operate a daycare, care taking services, repairs, heating, lighting, telephone, parking spaces, furniture and equipment. For the year ended June 30, 2005, the College incurred related expenses of $135,023 (2004-$127,551) on behalf of the Childcare Association, which are reflected in the College's statement of operations.

The College also provides $37,340 (2004-$31,500) annually to the Childcare Association to subsidize its operations. There is an option to renegotiate and renew this contract.

Note 21 Related Parties (continued)

a) Significantly Influenced Organizations (continued)

(ii) Portage Aquatic Association

The Portage Aquatic Association (the "Aquatic Association") was incorporated under the Alberta Business Corporations Act. It operates the Aquatic Centre with the objective to encourage, promote and provide aquatic training and recreational opportunities to prospective patrons. The College has an agreement with the Aquatic Association to make available aquatic training and recreational opportunities to College staff and students.

As of July 1, 2002, the College entered into an agreement with the Aquatic Association, Lakeland County and the Town of Lac La Biche in which the College contributes annually a lump sum of $123,916. The term of this agreement is July 1, 2002 to June 30, 2005. The College also contributed an additional inflationary amount of $5,006 (2004 - $2,478), for a total of $128,922 (2004 - $126,394) for the year ended June 30, 2005. Annual janitorial, management and other maintenance costs are no longer paid by the College. The College continues to own the building and recognized amortization in the amount of $45,602 (2004 - $45,602) for the current year.

In this agreement, the Aquatic Association has the ability to contract out maintenance. For the year ended June 30, 2005 the Aquatic Association chose to contract the maintenance back to the College. The College recognized $9,770 (2004 - $8,854) of revenue from this maintenance contract.

On behalf of students and to provide recreational programming, the College purchased $17,816 (2004-$12,901) in services from the Aquatic Centre during the year ended June 30, 2005.

At June 30, 2005, the accounts receivable balance include an amount of $30,927 (2004 - $12,500) owing from the Aquatic Centre for power usage and other purchases from the college.

Note 21 Related Parties (continued)

b) Alberta Government and Alberta Post Secondary Education Institutions

The College is a Provincial Corporation. All of the members of the Board of Governors are appointed pursuant to the Post Secondary Learning Act or by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education.

In the normal course of operations, the College engages in brokerage and other collaborative arrangements with other post-secondary educational institutions in Alberta. These institutions are also Provincial Corporations.

The College had the following transactions with related parties:

	Alberta Government		Post Secondary Collaboration	
	2005	2004	2005	2004
Revenues:				
Advanced Education:				
Operating contributions	$ 13,408,063	$ 13,101,408	$ -	$ -
Conditional contributions received	1,013,641	946,823	-	-
Other provincial departments and agencies received	554,575	1,049,402	-	-
Contributions received during the year	14,976,279	15,097,633	-	-
Conditional contributions deferred from prior years	1,213,363	738,192	-	-
Less contributions deferred at the end of the year	(786,765)	(999,043)	-	-
Less transfers to deferred capital contributions	(214,320)	(318,028)	-	-
Less transfers to accrued liabilities	(80,878)	(88,235)	-	-
Earned Government of Alberta contributions	15,107,679	14,430,519	-	-
Contract income	117,145	249,579	68,440	67,938
	$ 15,224,824	$ 14,680,098	$ 68,440	$ 67,938
Expenses	$ 107,413	$ 144,263	$ 120,641	$ 195,612
Accounts receivable	$ 171,760	$ 203,680	$ 60	$ 13,904
Accounts payable	$ 90,667	$ 136,602	$ 28	$ 2,902

Note 21 Related Parties (continued)

c) Joint Venture

On December 18, 1998, the Lieutenant Governor in Council approved the establishment of a corporation, to be owned equally by Portage College, Northern Lakes College, NorQuest College and Bow Valley College. On February 10, 1999, 818196 Alberta Ltd. was incorporated pursuant to the Alberta Business Corporations Act.

The Corporation was created for the purpose of holding jointly developed intellectual property transferred from her Majesty the Queen in Right of the Province of Alberta as represented by the Minister of Advanced Education. The fair value of the intellectual property transferred is not determinable. As at June 30, 2005, this Corporation was not active.

Note 22 Contingent Liability

There are four unresolved claims against the college. While the outcome of those claims cannot be predicted at this time, it is the opinion of management that the resolution of these claims will not have a material effect on the financial statements of the College, and it has not been reflected in these statements.

As well, the College has been informed that it is named in a Statement of Claim, along with other employers participating in certain pension plans and the Government of Alberta. The College has not yet been served and consequently does not have any of the details. It is too early in the process to give any opinion, and it has not been reflected in the financial statements of the College.

Note 23 Budget

The College is required to submit a budget, approved by the Board of Governors of the College, to the Minister of Advanced Education for his approval. The Board of Governors approved the College's Budget on April 20, 2004.

Note 24 Funds Held on Behalf of Others

The following funds, held by the College on the behalf of others, are not included in these financial statements:

	2005	2004
Portage Aquatic Association	$ 186,923	$ 107,529
Faculty Association	137,369	134,013
Employee Funded Leave	147,273	104,449
Other Funds Held	125,785	99,278
Security Deposits Held	20,448	19,099
	$ 617,798	$ 464,368

Note 25 Comparative Figures

Certain comparative amounts have been reclassified where necessary to conform to the current years financial statement presentation.

Note 26 Approval of Financial Statements

These financial statements were approved by the Board of Governors.

chedule 1 Continuing Education Programming

	2005							2004
	Trades, Technical & Safety	Forestry	Health	Computer & Office	Driver	Other	Total	Total
Revenue	$ 1,165,649	$ 441,165	$ 386,395	$ 13,733	$ 201,681	$ 13,886	$ 2,222,509	$ 1,946,077
Less:								
Direct Expenses:								
Salaries, wages and benefits	522,452	171,810	156,795	2,400	91,949	-	945,406	887,606
Supplies and other expenses	392,684	177,435	155,038	7,012	50,430	19,550	802,149	628,995
	915,136	349,245	311,833	9,412	142,379	19,550	1,747,555	1,516,601
Indirect costs (1)	171,836	69,587	44,633	1,908	16,864	700	305,528	325,511
Excess of revenue over expense	$ 78,677	$ 22,333	$ 29,929	$ 2,413	$ 42,438	$ (6,364)	$ 169,426	$ 103,965

The College actively works with industry, native communities and other organizations to provide customized training on a cost recovery basis. The College expects Continuing Education departments to cover all direct costs plus an estimated amount to cover indirect costs to deliver these programs - see footnote below.

Any revenues and expenditures related to Continuing Education program delivery can be grouped within any or all of the categories on the statement of operations.

(1) The amounts shown as indirect costs are calculated based on a percentage of gross program revenue on a scale ranging from 0% to a maximum of 20%.

RED DEER COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Revenue and Expense

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flow

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of Red Deer College

I have audited the consolidated statement of financial position of Red Deer College as at June 30, 2005 and the consolidated statements of revenue and expense, changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the College's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the College as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn FCA
Auditor General

Edmonton, Alberta
September 14, 2005

RED DEER COLLEGE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2005

	2005	2004
ASSETS		
Current:		
Cash	$ 1,823,464	$ 878,577
Investments (Note 3)	9,484,481	8,210,228
Accounts receivable	1,147,547	1,061,693
Inventories	822,197	909,501
Prepaid expenses	282,234	309,454
	13,559,923	11,369,453
Investments (Note 3)	5,927,279	6,271,990
Art collections (Note 4)	1,315,875	1,282,635
Capital assets (Note 5)	55,080,959	55,318,343
	$ 75,884,036	$ 74,242,421
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 4,292,097	$ 4,381,802
Accrued vacation pay	3,120,007	2,899,174
Unearned revenue	2,750,205	1,697,107
Deferred contributions (Note 6)	1,215,538	1,336,967
Current portion of long-term debt (Note 9)	226,746	179,319
Current portion of capital lease obligation (Note 8)	509,727	419,800
	12,114,320	10,914,169
Long-term portion of capital lease obligation (Note 8)	591,749	365,957
Long-term debt (Note 9)	6,115,909	4,742,655
Deferred contributions for capital purposes (Note 7)	-	526,933
Unamortized deferred capital contributions (Note 11)	34,315,079	36,167,051
	53,137,057	52,716,765
Contingencies (Note 25)		
Net assets:		
Endowments (Note 12)	4,689,818	4,507,596
Investment in capital assets and art collections	14,637,624	14,726,196
Internally restricted (Note 13)	2,011,957	1,460,591
Unrestricted net assets	1,407,580	831,273
	22,746,979	21,525,656
	$ 75,884,036	$ 74,242,421

The accompanying notes are an integral part of these financial statements.

RED DEER COLLEGE

CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE

FOR THE YEAR ENDED JUNE 30, 2005

	Budget (Note 23)	2005	2004
Revenue:			
Grants, Province of Alberta (Note 14)	$ 27,880,000	$ 29,531,752	$ 27,473,374
Educational contracts	1,190,000	1,732,516	1,854,756
Tuition and related fees (Note 15)	15,840,000	15,501,854	14,711,688
Ancillary services (Note 16)	6,700,000	6,511,844	6,622,386
Sales, rentals and services	1,250,000	1,846,995	1,206,729
Investment income (Note 17)	500,000	612,583	339,532
Donations and endowment interest	405,000	831,292	1,580,762
Amortization of deferred capital contributions (Note 11)	2,350,000	2,569,271	2,477,900
	56,115,000	59,138,107	56,267,127
Expense:			
Salaries and benefits	36,613,000	38,130,718	35,334,114
Supplies and services	11,012,000	11,456,487	11,617,946
Utilities	1,770,000	1,818,242	1,790,909
Scholarships and bursaries	270,000	275,202	271,929
Cost of goods sold	2,580,000	2,526,471	2,561,268
Contingency	275,000	-	-
Amortization and write down of capital assets	3,840,000	4,137,292	4,322,722
	56,360,000	58,344,412	55,898,888
Excess (deficiency) of revenue over expense for current operations	(245,000)	793,695	368,239
Gain on disposal of land (Note 18)	-	212,166	1,263,452
Excess (deficiency) of revenue over expense	$ (245,000)	$ 1,005,861	$ 1,631,691

The accompanying notes are an integral part of these financial statements.

RED DEER COLLEGE

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2005

	2005					2004
	Endowments (Note 12)	Investment in Capital Assets and Art Collections	Internally Restricted (Note 13)	Unrestricted Net Assets	Total	Total
Beginning of year	$ 4,507,596	$ 14,726,196	$ 1,460,591	$ 831,273	$ 21,525,656	$ 19,472,146
Excess of revenue over expense				1,005,861	1,005,861	1,631,691
Endowments received	87,714				87,714	46,921
Investment income added to endowment principal (Note 17)	94,508				94,508	66,370
Transfers:						
Purchase of capital assets		791,238		(791,238)	-	-
Amortization		(1,320,811)		1,320,811	-	-
Net book value of capital assets disposed or written down		(247,211)		247,211	-	-
Repayment of long-term debt and capital lease		654,972		(654,972)	-	-
Transfer from unrestricted net assets to internally restricted for Residence renovations			562,024	(562,024)	-	-
Donated art collections		33,240			33,240	308,528
Board allocation from internally restricted net assets			(10,658)	10,658	-	-
End of year	$ 4,689,818	$ 14,637,624	$ 2,011,957	$ 1,407,580	$ 22,746,979	$ 21,525,656

The accompanying notes are an integral part of these financial statements.

RED DEER COLLEGE
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2005

	2005	2004
Cash generated from operating activities:		
Excess of revenue over expense	$ 1,005,861	$ 1,631,691
Add:		
Amortization and write down of capital assets	4,137,292	4,322,722
Gain on disposal of land	(212,166)	(1,263,452)
Amortization of deferred capital contributions	(2,569,271)	(2,477,900)
	2,361,716	2,213,061
Changes in non-cash working capital (Note 20)	1,091,467	(2,471,594)
Cash generated from (applied to) operating activities	3,453,183	(258,533)
Investing activities:		
Acquisition of capital assets and collections		
Internally funded	(579,071)	(596,518)
Debenture funded	(1,600,000)	-
Externally funded (Note 11)	(717,299)	(1,150,687)
Purchase of investments - current	(1,274,253)	(38,150)
Disposal of investments - long-term	344,711	203,888
Cash applied to investing activities	(3,825,912)	(1,581,467)
Financing activities:		
Repayment of long-term debt	(179,319)	(168,198)
Repayment of capital lease	(475,653)	(416,718)
Capital contributions received (net of transfers) (Note 7)	190,366	833,508
Endowments contributions	182,222	113,291
Addition of long-term debt	1,600,000	-
Cash generated from financing activities	1,317,616	361,883
Increase (decrease) in cash	944,887	(1,478,117)
Cash at beginning of year	878,577	2,356,694
Cash at end of year	$ 1,823,464	$ 878,577

The accompanying notes are an integral part of these financial statements.

Note 1 Authority and Purpose

Red Deer College operates under the authority of the Post-Secondary Learning Act, Statues of Alberta 2003, Chapter P-19.5.

The College provides a wide range of quality educational opportunities designed to promote success of learners and the enrichment of life in the communities it serves. The College is mandated to provide certificates, diplomas, applied degrees and a wide variety of non-credit offerings through adult development programs, career-oriented studies, trades training and university undergraduate studies.

The College is exempt from the payment of income tax under Section 149 of the Income Tax Act.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Consolidation

The financial statements include the accounts of the College and the Red Deer College Foundation.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from management's best estimates as additional information becomes available in the future. These estimates are based on management's best knowledge of current events and actions that the organization may undertake in the future.

(c) Inventories

Inventories of merchandise for resale are valued at the lower of cost and net realizable value. Inventories of supplies for consumption are valued at the lower of cost and replacement value. Cost is determined on the first-in, first-out basis.

(d) Investments

Investments are recorded at cost or amortized cost. Amortization of discount or premium is on a straight-line basis over the life of the investment. Gains or losses on sales of investments are recognized as investment income in the year of sale. Where impairment in the value of the investment is other than temporary, a charge to income will be recognized as an unrealized loss on investments.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(e) Art Collections

Art collections are recorded at cost except for donated items, which are recorded at fair market value at the time of receipt.

(f) Capital Assets

Capital assets are amortized on a straight-line basis over the following average useful lives:

Buildings and site improvements	40 years
Infrastructure	25 years
Land improvements	12 years
Furnishings, equipment and vehicles	10 years
Library	10 years
Computer software	5 years
Audio-visual equipment and electronics	3 years
Computer hardware and computer leases	3 years

(g) Financial Instruments

The financial instruments consist of cash, investments, accounts receivable, accounts payable and accrued liabilities, accrued vacation pay, long-term debt and capital leases. Financial instruments are initially recorded at cost. If subsequent circumstances indicate that a decline in fair value of a financial instrument is other than temporary, the financial asset is written down to its fair value.

The fair value of accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to the short time to receipt or payment of cash. The fair value of long-term debt and capital leases approximates their carrying value, as the average interest rate charged is consistent with the college incremental borrowing rate. The fair value of accrued vacation pay is not readily determinable as there are no conditions for the timing of repayment.

The financial instruments that are exposed to credit risk consist of accounts receivable, certain short-term investments and certain long-term investments. The risk is limited by the College's investment policy and collection procedures.

The capital lease, long-term debt, and certain investments have fixed interest rates and are exposed to interest rate price risk.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Financial Instruments (continued)

Certain investments have variable interest rates and are exposed to interest rate cash-flow risk.

Certain investments are exposed to market price risk.

Red Deer College is exposed to foreign exchange rate risk as they have transactions in the United States currency.

(h) Revenue Recognition

Unrestricted grants are recognized in the period when they become receivable. Unrestricted grants received for a future period are deferred until that future period.

Capital grants are recorded as deferred contributions for capital purposes until the amount is invested in capital assets. Amounts invested representing funded capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded. The related portion of amortization expense and the amortization of deferred capital contributions are matched to indicate that the related amortization expense has been funded.

Restricted contributions and donations are recognized as revenue if the amounts have been received and the related expenses have been incurred. Unrestricted contributions and donations are recognized as revenue when received.

Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Donations of capital assets that will not be amortized and artwork collections are recognized as direct increases in net assets. Permanent impairment in values of these items is recognized as a reduction in net assets.

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by external parties. Any externally restricted contributions containing stipulations that the amounts should be retained as net assets, or that the contributions should not be expended, are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(i) Employee Future Benefits

The College participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provide pensions for the College's participating employees, based on years of service and earnings.

Pension cost is disclosed as a part of salaries and benefits and are comprised of the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the Local Authorities Pension Plan. The College's portion of the pension plan's deficit or surplus is not recorded by the College.

The College participates in a Supplementary Employees Retirement Plan for certain specified employees of the College. The plan is a defined benefit plan, is non-registered, unfunded and the liability is determined by an actuarial valuation using estimates described in note 22.

The plan costs are disclosed as part of the salaries and benefits.

Note 3 Investments

Investments are summarized as follows:

	2005	2004
Treasury bills and other	$ 1,039,499	$ 1,766,933
Bonds and coupons	5,739,924	5,069,923
Stocks and equity mutual funds	8,632,337	7,645,362
	15,411,760	14,482,218
Held as long-term investments	(5,927,279)	(6,271,990)
Current portion of investments	$ 9,484,481	$ 8,210,228

The market value of the investments are as follows:

Treasury bills and other	$ 1,040,077	$ 1,767,110
Bonds and coupons	5,991,877	5,144,236
Stocks and equity mutual funds	9,903,807	8,309,320
	$ 16,935,761	$ 15,220,666

Note 3 Investments (continued)

These investments mature as follows

	Cost
Non maturing (Stocks and equity mutual funds)	$ 8,632,337
2006	1,039,499
2008	983,289
2009	992,483
2010	1,227,750
2012	610,788
2013	138,401
2014	429,155
2015	235,721
2028	310,291
2029	812,046
	$ 15,411,760

The College's fixed income investments of $6,779,423 (2004 $6,836,856) have an effective interest rate of 4.72% (2004 - 4.48%). The rate of return on the balance of the portfolio, comprised of mutual fund and stock holdings, is dependent on the fund's performance.

Note 4 Art Collections

Art collections represent paintings, sketches and drawings held to further the College's education and research activities.

Note 5 Capital Assets

(a) Summary of Cost and Net Book Value

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land and improvements	$ 10,197,837	$ 379,700	$ 9,818,137	$ 9,894,214
Buildings and site improvements	70,879,448	31,752,440	39,127,008	39,336,650
Library	1,322,682	910,953	411,729	397,097
Furnishings and equipment	11,386,692	7,725,260	3,661,432	5,175,140
Computer hardware	2,548,130	1,597,212	950,918	-
Computer software	3,101,693	2,929,046	172,647	293,994
Computer leases	2,671,426	1,916,144	755,282	-
Vehicles	473,466	289,660	183,806	221,248
	$ 102,581,374	$ 47,500,415	$ 55,080,959	$ 55,318,343

(b) Donations in Kind

During the year there were donations in kind of equipment in the amount of $124,978 (2004 - $99,893).

Note 6 Deferred Contributions

Deferred contributions represent unspent contributions externally restricted for non-capital purposes.

	2005	2004
Contributions:		
Grants	$ 5,184,087	$ 3,452,891
Donations	865,517	738,360
Interest	283,212	198,099
	6,332,816	4,389,350
Transfer from deferred capital contributions (Note 7)	293,557	266,593
	6,626,373	4,655,943
Transferred to revenue:		
Grants, Province of Alberta	5,884,393	4,295,477
Donations and interest	863,409	1,593,787
	6,747,802	5,889,264
Decrease during the year	(121,429)	(1,233,321)
Deferred contributions at beginning of year	1,336,967	2,570,288
Deferred contributions at end of year	$ 1,215,538	$ 1,336,967

The balance consists of funds restricted for:

	2005	2004
Deferred maintenance	$ 423,258	$ 756,122
Scholarships and bursaries	792,280	580,845
	$ 1,215,538	$ 1,336,967

Note 7 Deferred Contributions for Capital Purposes

Deferred contributions for capital purposes represent unspent restricted capital funds.

	2005	2004
Contributions:		
Grants	$ 60,000	$ 233,529
Donations	423,923	866,572
	483,923	1,100,101
Transfer to deferred contributions (Note 6)	293,557	266,593
	190,366	833,508
Transfer to unamortized deferred capital contributions (Note 11)	717,299	1,150,687
Decrease during the year	(526,933)	(317,179)
Deferred contributions for capital purposes at beginning of year	526,933	844,112
Deferred contributions for capital purposes at end of year	$ -	$ 526,933

The balance consists of funds restricted for:

	2005	2004
Program expansion	$ -	$ 125,932
Facility expansion	-	401,001
	$ -	$ 526,933

Note 8 Capital Lease Obligation

Capital lease obligation is comprised of the following:

	2005	2004
Capital lease at 5.06% interest rate expiring September, 2005	$ 930	$ 4,533
Capital lease at 4.95% interest rate expiring December, 2005	10,002	29,281
Capital lease at 5.29% interest rate expiring February, 2006	3,667	8,930
Capital lease at 0% interest rate expiring March, 2006	5,480	12,786
Capital lease at 4.50% interest rate expiring July, 2006	113,843	214,123
Capital lease at 4.9% interest rate expiring September, 2006	9,790	17,203
Capital lease at 4.37% interest rate expiring December, 2006	41,800	68,184
Capital lease at 4.50% interest rate expiring March, 2007	56,645	87,069
Capital lease at 5.15% interest rate expiring May, 2007	123,801	183,709
Capital lease at 4.79% interest rate expiring September 2007	23,064	-
Capital lease at 4.57% interest rate expiring January, 2008	78,128	-
Capital lease at 4.70% interest rate expiring February, 2008	95,565	-
Capital lease at 4.75% interest rate expiring March, 2008	19,939	-
Capital lease at 4.82% interest rate expiring April, 2008	84,625	-
Capital lease at 4.38% interest rate expiring April, 2008	278,936	-
Capital lease at 4.53% interest rate expiring April, 2008	155,261	-
Capital leases expired in year	-	159,939
	$ 1,101,476	$ 785,757

Note 8 Capital Lease Obligation (continued)

Future minimum lease payments are due in the following fiscal periods as follows:

2006	$ 549,503
2007	395,740
2008	218,974
	1,164,217
Less amount representing interest	(62,741)
	1,101,476
Less current portion	(509,727)
	$ 591,749

The College has pledged leased assets as security over these obligations.
During the year, interest on capital lease obligations amounting to $26,196 (2004 - $30,729) has been expensed to supplies and services.

Note 9 Long-Term Debt

Long-term debt is summarized as follows:

	Principal Outstanding	
	2005	2004
Student residences, debenture maturing November 1, 2007 at 7.25% per annum interest	$ 195,178	$ 264,025
Student residences, debenture maturing April 3, 2025 at 6.25% per annum interest	2,430,867	2,491,410
Student residences, debenture maturing April 2, 2026 at 6.00% per annum interest	2,116,610	2,166,539
Student residences, debenture maturing June 15, 2030 at 4.518% per annum interest	1,600,000	-
Total long-term debt	6,342,655	4,921,974
Less current portion	226,746	179,319
	$ 6,115,909	$ 4,742,655

The repayment of principal in the next five fiscal years is as follows:

2006	$ 226,746
2007	241,024
2008	212,839
2009	180,858
2010	191,321

Note 9 Long-Term Debt (continued)

The College has provided all proceeds derived directly or indirectly from the operations of the residence buildings as security over these loans under a general security agreement. Included in supplies and services is $304,118 (2004 - $312,418) of interest on long-term debt. Debentures in the amount of $6,147,477 (2004 - $4,657,949) are held with Alberta Capital Finance Authority, which is a related party of the College.

Note 10 Pension Costs

The pension expense recorded in these financial statements is equivalent to the College's annual contributions of $ 1,962,498 for the year ended June 30, 2005 (2004 - $1,576,127).

At December 31, 2004 the Local Authorities Pension Plan reported a deficiency of $1,288,924,000 (2003 – $1,453,487,000). Effective January 1, 2004, the employers' contribution rate was increased by 1.077%. Rates were increased further on January 1, 2005 by 1%.

Note 11 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the funded portion of capital assets, which will be recognized as revenue in future periods. Changes in the unamortized deferred capital contributions balance are as follows:

	2005	2004
Balance at beginning of year	$ 36,167,051	$ 37,789,064
Add amount transferred from deferred contributions for capital purposes (Note 7)	717,299	1,150,687
Less adjustment to transfer funds related to permanent art to investment in capital assets and art collections	-	(294,800)
Less amount amortized to revenue	(2,569,271)	(2,477,900)
	$ 34,315,079	$ 36,167,051

Note 12 Endowments

Endowments are comprised of externally and internally restricted amounts, which are required to be maintained intact except where a donor or the Board of Governors, for internally restricted amounts, agrees to a reallocation for expendable purposes unless otherwise restricted. The terms of certain endowments require the College to maintain the real value of the endowments. Accordingly, a portion of annual investment income earned on the endowment is added to the principal amount. Internally restricted endowments amounted to $621,454 in 2005 (2004 - $604,228).

Note 13 Internally Restricted Net Assets

Net assets internally restricted are held for the following purposes. These amounts are not available for other purposes without the approval of the Board of Governors.

Innovative instruction	$ 212,472	$ 223,130
College sustainability fund	1,237,461	1,237,461
Residence renovation funds	562,024	-
Net assets internally restricted	$ 2,011,957	$ 1,460,591

Note 14 Related Party Transactions

The College is a Provincial Corporation as all the members of the Board of Governors are appointed through the Post-Secondary Learning Act by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions between the College and the Province are disclosed as follows in the Consolidated Statement of Revenue and Expense or as part of the deferred contributions balance on the Consolidated Statement of Financial Position:

Fiscal 2004/2005	Grants, Province of Alberta	Deferred Contributions	Deferred Contributions for Capital Purposes
Operations grant	$ 23,361,131	$ -	$ -
Conditional performance	278,958	-	-
Access/Apprenticeship	5,208,105	-	-
Infrastructure renewal	275,287	423,258	-
Other	408,271	-	-
	$ 29,531,752	$ 423,258	$ -

Note 14 Related Party Transactions (continued)

Fiscal 2003/2004	Grants, Province of Alberta	Deferred Contributions	Deferred Contributions for Capital Purposes
Operations grant	$ 21,851,034	$ -	$ -
Conditional performance	232,028	-	-
Access/Apprenticeship	3,664,969	756,122	125,932
Infrastructure renewal	630,508	-	401,001
Other	1,094,835	-	-
	$ 27,473,374	$ 756,122	$ 526,933

During the year, the College conducted business transactions with other public colleges, universities and provincial government departments and agencies. These transactions were entered into on the same business terms as with non-related parties and are recorded at their fair values.

	2005	2004
Amounts Paid or Payable:		
Alberta Health and Wellness	$352,524	$349,474
Northern Alberta Institute of Technology	151,635	118,652
Southern Alberta Institute of Technology	129,745	122,731
Amounts Received or Receivable:		
University of Alberta	$325,461	$332,495
University of Calgary	301,911	236,640

There were also transactions with the David Thompson Health Region, the details are disclosed in note 18.

Note 15 Tuition Fees

	2005	2004
Tuition Fee Revenue (from programs under the tuition fee policy):	$10,388,094	$ 9,838,018
Net operating expenditures	38,407,647	36,696,363
Tuition fee revenue as a % of net operating expenditures	27%	27%

Note 15 Tuition Fees (continued)

The calculation of the tuition fee policy is a ratio of institution tuition fee revenue to net operating expenditures, and demonstrates institution performance with respect to the 30% tuition fee ceiling. The information was prepared in accordance with Section 7 of the Tuition Fee Regulation.

Tuition and Related Fees:

	2005		2004	
	Budget	Actual	Budget	Actual
Credit	$ 12,010,000	$ 11,440,767	$ 11,358,000	$ 10,913,007
Apprenticeship	1,290,000	1,338,025	1,030,000	1,065,348
Credit free	2,540,000	2,723,062	2,400,000	2,733,333
Total tuition and related fees	$ 15,840,000	$ 15,501,854	$ 14,788,000	$ 14,711,688

Note 16 Ancillary Services

Ancillary services operations are as follows:

	Revenue	Direct Expense	2005 Net	2004 Net
Bookstore	$ 3,360,154	$ 2,999,710	$ 360,444	$ 427,214
Student residences	2,104,698	1,570,504	534,194	605,129
Child care centres	512,575	511,817	758	(22,841)
Parking	534,417	346,194	188,223	178,590
	$ 6,511,844	$ 5,428,225	$ 1,083,619	$ 1,188,092

Note 17 Investment Income

	2005	2004
Investment earnings in the year	$ 990,303	$ 604,001
Amount earned on deferred funds (Note 6)	(283,212)	(198,099)
Investment earnings on endowments	(94,508)	(66,370)
Investment earnings - unrestricted	$ 612,583	$ 339,532

Note 18 Gain on Disposal of Land

Prior to June 30, 2003, the College entered into an agreement with the David Thompson Health Region to construct a long-term care facility on College premises. Pursuant to this agreement, the College has agreed to provide a long-term lease on land with a fair market value of $1,766,400. As consideration for this transaction, the College has received building and equipment in the amount of $1,350,000 and cash reimbursements up to $416,400 to defray the costs of negotiating the lease and the site servicing costs.

As at June 30, 2005, the project was complete and the College has recorded the final portion of a gain on disposal of land in the amount of $212,166 (2004 - $1,263,452) which represents the amounts recorded relating to additions of building, equipment and site servicing. In addition, the College has recorded $9,931 (2004 - $49,874) related to reimbursements to lease negotiation costs as sales, rentals and services revenue.

Note 19 Salaries and Benefits

The salary and benefit disclosure is provided pursuant to a Treasury Board Directive 12/98 amended July 6, 2004 and includes only the salary and benefits of those individuals in the senior decision making group of the College.

	2005				2004
	Base Salary (1)	Other Cash Benefits (2)	Other Non Cash Benefits (3)(4)	Total	Total
Chairman of the Board	$ -	$ 3,000	$ -	$ 3,000	$ 3,000
Board members	-	16,499	-	16,499	17,867
President	151,392	-	41,592	192,984	169,681
Executive Vice President Education	131,298	-	22,147	153,445	140,371
Vice President College Services	125,807	-	19,580	145,387	133,193
Associate Vice President of Community Relations	116,963	-	23,569	140,532	130,335
Associate Vice President of Human Resources and Leadership Development	93,878	-	13,931	107,809	83,552
	$ 619,338	$ 19,499	$ 120,819	$ 759,656	$ 677,999

(1) Salary includes pensionable base pay.

(2) Other cash benefits include bonuses, overtime, lump sum payments and honoraria.

(3) Employers share of all employee benefits and contributions or payments made on behalf of employees including Local Authorities Pension, Teachers' Retirement Fund, Canada Pension Plan, employment insurance, workers' compensation, health care, dental coverage, extended health care, group life and accidental death and dismemberment insurance, professional memberships and tuitions. Other non-cash benefits figure also includes the employer's share of the cost of additional benefits including travel allowances, car allowances and club memberships.

(4) The President, Executive Vice President of Education, Vice President of College Services, and the Associate Vice President of Community Relations belong to a supplementary pension plan. See note 22 for details on the non-cash benefit for the supplementary pension plan. No comparable results exist for July 1, 2003 – June 30, 2004, as the program was implemented June 30, 2004.

Note 20 Changes in Non-Cash Working Capital

	2005	2004
Accounts receivable	$ (85,854)	$ 461,067
Inventories	87,304	(91,228)
Prepaid expenses	27,220	(32,578)
Accounts payable and accrued liabilities	(89,705)	(1,325,418)
Accrued vacation pay	220,833	(213,497)
Unearned revenue	1,053,098	(36,619)
Deferred contributions	(121,429)	(1,233,321)
	$ 1,091,467	$ (2,471,594)

Note 21 Commitments

Facility Commitments
Prior to June 30, 2005, the College entered into agreements for the renovation and maintenance of facilities. The College's contractual obligation subsequent to year-end is estimated at $562,024 (2004 - $287,000).

The College's operating lease obligation at June 30, 2005 is $396,380 (annual $99,095) expiring June 2009 and $406,125 (annual $81,225) expiring June 2010.

Utility Commitments
In order to manage its exposure to volatility in the electrical and gas industry, the Board of Governors has entered into the following contracts:

Electrical: A 5-year contract, beginning September 21, 2001, at a fixed rate of 5.573 cents per kilowatt-hour.

Gas: A contract to purchase blocks of natural gas on a periodic basis to achieve low cost.

Based on 2005 consumption the annual costs for electricity and gas respectively for the year ending June 30, 2006 is estimated at $949,167 and $613,679 (2005 – $945,579 and $561,108).

Note 22 Deferred Compensation Plan

Effective June 30, 2004, the College implemented the Red Deer College Supplementary Employees Retirement Plan for certain specified employees of the College. The plan is a non-registered unfunded pension plan that supplements the benefits received under the registered Local Authorities Pension Plan in Alberta.

Note 22 Deferred Compensation Plan (continued)

The accrued benefit obligation of June 30, 2005 is $296,000, included in Accounts payable and accrued liabilities in the Consolidated Statement of Financial Position, reflects an amortization period for the transition of 1 year. The benefit was calculated using the projected accrued benefit cost method with pro-ration of service. The actuarial assumptions used in calculating this benefit are as follows:

Expected average remaining service life	7 years
Assumed rate of return on assets	5.5%
Assumed discount rate on liabilities	5.5%
Weighted average expected increase in salaries	4%
Estimated inflation used	2.5%
Retirement age	60 - 65 years

Yearly Maximum Pensionable Earnings of $41,100 for 2005 ($40,500 - 2004) is estimated to increase by 3.5% per year.

The expected employer contribution amount for 2006 is $42,100 (2005 - $33,100).

The plan is a defined benefit plan. Yearly benefits will be calculated as 1.4% of the participant's final average earnings up to the average yearly maximum pensionable earnings, plus 2.0% of the participant's final average earnings in excess of the average yearly maximum pensionable earnings adjusted for early retirement and pensionable service time.

The Plan was approved by the Minister of Advanced Education on May 12, 2005.

Note 23 Budget

The budget was approved by the Board of Governors on June 8, 2004 and has not been audited.

Note 24 Contingencies

The College, in the conduct of its normal activities, is a defendant in a number of legal proceedings. While the ultimate outcome of these proceedings cannot be predicted at this time, it is the opinion of the administration that adequate provision for these proceedings has been made in the College's accounts. It is believed that the resolution of the proceedings will not have a material effect on the financial position of the College, however, should any additional loss result from the resolution of these proceeding, such amounts would be expensed as the related amounts become known to the College.

Note 25 Comparative Figures

Certain 2004 figures have been reclassified to conform to the 2005 presentation.

Note 26 Approval of Financial Statements

These consolidated financial statements have been approved by the Board of Governors.

The Northern Alberta Institute of Technology

Consolidated Financial Statements

June 30, 2005

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations and Changes in Net Assets

Consolidated Statement of Cash Flow

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of The Northern Alberta Institute of Technology

I have audited the consolidated statement of financial position of The Northern Alberta Institute of Technology (the Institute) as at June 30, 2005 and the consolidated statements of operations and changes in net assets and cash flow for the year then ended. These financial statements are the responsibility of the Institute's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Institute as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 9, 2005

The Northern Alberta Institute of Technology

Consolidated Statement of Financial Position

As at June 30, 2005
(in thousands)

	2005	2004 (Restated - Note 22)
ASSETS		
Current:		
Cash and Short-term investments (Note 3)	$ 1,590	$ 13,710
Account receivable (Note 4)	6,239	5,592
Contributions and pledges receivable (Note 5)	1,307	1,223
Inventories (Note 6)	4,111	3,489
Prepaid expenses	1,158	804
	14,405	24,818
Contributions and pledges receivable (Note 5)	2,862	3,976
Long-term investments (Note 3)	62,155	46,191
Capital assets (Note 7)	192,626	190,203
	$ 272,048	$ 265,188
LIABILITIES AND NET ASSETS		
Current:		
Accounts payable and accrued liabilities	$ 16,867	$ 15,141
Accrued vacation pay	11,718	10,727
Unearned revenue	8,157	7,625
Current portion of long-term leases (Note 8)	548	584
Deferred contributions (Note 9)	6,191	6,518
	43,481	40,595
Deferred capital contributions (Note 10)	2,797	5,891
Long-term leases (Note 8)	1,147	1,161
Unamortized deferred capital contributions (Note 11)	106,732	106,687
	154,157	154,334
Net Assets:		
Unrestricted net assets	13,885	12,507
Internally restricted (Note 12)	7,794	5,228
Invested in capital assets (Note 7)	84,199	81,771
Endowments (Note 13)	12,013	11,348
	117,891	110,854
	$ 272,048	$ 265,188

The accompanying notes are part of these consolidated financial statements.

The Northern Alberta Institute of Technology

Consolidated Statement of Operations and Changes in Net Assets

For the Year Ended June 30, 2005

(in thousands)

	2005					2004
	Unrestricted	Internally Restricted	Invested in Capital Assets	Endowment	Total	Total (Restated - Note 22)
Revenue						
Grants	$ 112,201	$ -	$ -	$ -	$ 112,201	$ 112,291
Earned revenue programs	31,182	-	-	-	31,182	27,609
Tuition and other fees	31,102	-	-	-	31,102	29,534
Ancillary services (Note 14)	15,986	-	-	-	15,986	16,085
Amortization of deferred capital contributions	7,879	-	-	-	7,879	8,168
Sales, rentals, services and other	5,083	-	-	-	5,083	5,586
Investment earnings (Note 15)	3,598	-	-	-	3,598	2,658
Fundraising and donations	2,711	-	-	-	2,711	1,611
	209,742	-	-	-	209,742	203,542
Expense (Note 16)						
Salary and benefits (Note 17)	134,681	-	-	-	134,681	126,819
Supplies and services (Note 18)	44,592	-	-	-	44,592	43,854
Amortization of capital assets	14,457	-	-	-	14,457	14,322
Utilities	7,564	-	-	-	7,564	7,642
Facilities rentals	482	-	-	-	482	844
Scholarships, bursaries and prizes	1,165	-	-	-	1,165	909
Loss on disposal of capital assets	429	-	-	-	429	894
	203,370	-	-	-	203,370	195,284
Excess of revenue over expense	6,372	-	-	-	6,372	8,258
Release of internally restricted net assets for current operating activities	532	(532)	-	-	-	-
Net endowment contributions (Note 13)	-	-	-	665	665	421
Amortization of assets acquired with unrestricted net assets	6,578	-	(6,578)	-	-	-
Book value of capital assets disposed	616	-	(616)	-	-	-
Purchases of capital assets	(8,413)	(1,364)	9,777	-	-	-
Reduction of temporary financing of NAIT HP Centre	654	-	(654)	-	-	-
Repayment of long-term lease	(499)	-	499	-	-	-
Board allocation to internally restricted net assets	(4,462)	4,462	-	-	-	-
Change in net asset balance	1,378	2,566	2,428	665	7,037	8,679
Net asset balance, beginning of year (Restated - see Note 22)	12,507	5,228	81,771	11,348	110,854	102,175
Net asset balance, end of year	$ 13,885	$ 7,794	$ 84,199	$ 12,013	$ 117,891	$ 110,854

The Northern Alberta Institute of Technology

Consolidated Statement of Cash Flow

For the Year Ended June 30, 2005
(in thousands)

	2005	2004 (Restated - Note 22)
Cash provided from (used in) operating activities:		
Excess of revenue over expense	$ 6,372	$ 8,258
Non-cash transactions:		
Amortization of capital assets	14,457	14,322
Loss on disposal of capital assets	429	894
Amortization of deferred capital contributions	(7,879)	(8,168)
Cash generated from operations	13,379	15,306
Changes in non-cash working capital accounts (Note 19)	1,215	3,314
	14,594	18,620
Cash provided from (used in) investing activities:		
Acquisition of capital assets:		
Externally funded	(7,270)	(5,148)
Internally funded	(9,777)	(6,742)
Capital lease financed	(449)	(1,526)
	(17,496)	(13,416)
Proceeds from disposal of capital assets	187	205
(Purchase of) proceeds from long-term investments - net	(15,964)	(8,645)
	(33,273)	(21,856)
Cash provided from (used in) financing activities:		
Deferred capital contributions	5,888	10,316
Long-term leases - net	(50)	1,197
Long-term debt	-	(139)
Endowment contributions	721	616
	6,559	11,990
Net (decrease) increase in cash and short-term investments	(12,120)	8,754
Cash and short-term investments, beginning of year	13,710	4,956
Cash and short-term investments, end of year	$ 1,590	$ 13,710

Note 1 Authority and Purpose

The Northern Alberta Institute of Technology (the "Institute") is a public, board governed technical institute operated in accordance with the Post-secondary Learning Act, Chapter P-19.5, Statutes of Alberta, 2003.

The Institute serves primarily central and northwestern Alberta, offering a variety of career programming in credit, noncredit and apprenticeship formats with opportunities for full and part-time delivery. With its strong focus on serving the needs of business and industry, the Institute is a key contributor to the province's economic well-being.

Certificate, diploma and applied degree programs are offered in a range of career fields including business, mechanical and manufacturing, building sciences, health technologies, media and information technologies, natural resources and environment, hospitality and tourism, electrical, electronics and agricultural programming related to land utilization and the care and training of animals.

The Institute is exempt from payment of income tax under Section 149 of the Income Tax Act.

Note 2 Significant Accounting Policies and Reporting Practices

a) Consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Institute, The Northern Alberta Institute of Technology Foundation and the Fairview College Foundation.

In preparing the Institute's consolidated financial statements management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. Management believes its estimates to be appropriate, however, actual results could differ from these estimates.

b) Revenue Recognition

Unrestricted contributions are recognized as revenue when received or when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted investment income, which includes interest, dividends and realized gains and losses, is recognized as revenue is earned. Pledges are recognized as revenue when collection is reasonably assured.

Revenues received for the provision of goods or services are recognized in the period in which the goods are provided or the services rendered or substantially rendered. Tuition fees are recognized as revenue when the related instruction is delivered.

Restricted contributions are recognized as revenue in accordance with the deferral method, as summarized below:

- Contributions, including investment income, restricted for purposes other than endowment or the acquisition of capital assets are deferred and recognized as revenue in the year in which the conditions of the contribution are met. Contributions restricted to the acquisition of capital assets having limited life are initially recorded as deferred capital contributions in the period in which they are received and, when expended, are transferred to unamortized deferred capital contributions and amortized to revenue over the useful lives of the related assets.

- Endowment contributions are recognized as direct increases in net assets.
- Contributions restricted to the acquisition of non-consumable capital assets are initially recorded as deferred capital contributions in the period in which they are received and, when expended, are recognized as direct increases in net assets.

c) Inventories

Inventories of merchandise for resale are valued at the lower of average cost and net realizable value. Inventories of supplies for consumption are valued at the lower of average cost or replacement value.

d) Financial Instruments

The fair values of the Institute's accounts receivable, accounts payable and accrued liabilities, and accrued vacation pay approximate their carrying values due to the relatively short periods to maturity of the instruments.

e) Capital Assets

Capital assets are amortized on a straight-line basis over the following average useful lives:

Buildings and renovations	40 years
Site improvements	10 years
Leasehold improvements	Lease term
Furnishings, equipment and vehicles	2 to 10 years
Software	2 to 5 years
Library holdings	10 years

f) Employee Future benefits

The Institute and its eligible employees participate in the Local Authorities and Management Employees Pension Plans. These plans are multi-employer defined benefit pension plans, administered by the Alberta Pensions Administration Corporation and provide pensions for the Institute's employees based on years of service and earnings.

Pension costs included in these consolidated financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the respective pension plan. The Institute's portion of the pension plans' deficit or surplus is not recorded by the Institute.

Note 3 Cash, Short-term Investments and Long-term Investments

Cash, short-term investments and long-term investments are recorded at cost or amortized cost, less provision for decline in market value that is other than temporary. Market value is based upon the quoted market price of the securities. Gains or losses are recognized as investment income in the year of sale.

The Institute's investment policy is dedicated to optimizing the return on investment while ensuring that the assets of the Institute are at all times prudently invested while minimizing the potential for loss of capital.

Specific guidelines have been established with respect to asset mix, diversification, security, and performance measurement as well as quality, liquidity and term constraints.

a) Cash and Short-term Investments

In addition to cash on hand and on deposit, cash and short-term investments, consisting of Banker's Acceptances and Government of Canada Treasury Bills, all mature within one year and bear interest at a weighted average of 2.54% (2004: 2.01%). The effective yield of 2.54% (2004: 2.01%) represents the rate which discounts future cash receipts to the carrying value at June 30, 2005. Carrying value of these securities approximates market value.

The Institute manages an additional $2,245 (2004: $1,774) of short-term investments as Funds Held on Behalf of Others (Note 23), which are not included in the consolidated financial statements.

The Institute's investment guidelines restrict holdings of short-term investments to high quality, liquid securities where the rate of return performance standard is the return on 91-day Canadian Treasury Bills.

b) Long-term Investments

	2005		2004	
	Recorded Value	Market Value	Recorded Value	Market Value
			(Restated - Note 22)	
Government of Canada bonds	$ 18,500	$ 19,050	$ 11,367	$ 11,405
Provincial bonds	7,408	7,835	5,882	6,051
Provincial coupon bonds	308	306	978	1,138
Corporate bonds	10,051	10,424	6,951	7,024
Equities	25,759	30,229	20,863	23,757
Other	129	139	150	168
	$ 62,155	$ 67,983	$ 46,191	$ 49,543

	2005 Recorded Value	2005 Market Value	2004 Recorded Value	2004 Market Value
Equities are comprised of:				
Canadian equities	$ 13,291	$ 16,716	$ 11,832	$ 13,448
Foreign equities	12,468	13,513	9,031	10,309
	$ 25,759	$ 30,229	$ 20,863	$ 23,757

	2005	2004
Government of Canada Bonds		
Weighted average years to maturity	5.5 years	5.9 years
Weighted average interest rate	4.45%	4.91%
Effective yield based on purchase price	3.79%	4.37%
Provincial Bonds		
Weighted average years to maturity	8.2 years	8.2 years
Weighted average interest rate	4.38%	5.30%
Effective yield based on purchase price	3.81%	4.66%
Provincial Coupon Bonds		
Weighted average years to maturity	2.2 years	2.1 years
Weighted average interest rate	3.82%	4.87%
Effective yield based on purchase price	3.82%	4.93%
Corporate Bonds		
Weighted average years to maturity	5.7years	7.8 years
Weighted average interest rate	5.20%	5.80%
Effective yield based on purchase price	4.40%	5.39%

Term to maturity of bonds is based upon the contractual maturity of the security. Effective yields represent the rate that discounts future cash receipts to the purchase price.

In accordance with the Institute's investment guidelines, risk on long-term investment is managed by:

- requiring that all bonds be rated "A" or better by the Dominion Bond Rating Service or an equivalent recognized rating agency;
- holding a diversified selection of Canadian equities with a minimum of twenty securities and limiting exposure in any one security or issuer to 10% of the equity portfolio.
- limiting investment in foreign equities to a maximum of 50% of the market value of the total equity portfolio with no funds invested in emerging markets.

Note 4 Accounts Receivable

	2005	2004 (Restated - Note 22)
Canadian accounts receivable	$ 5,663	$ 4,904
Foreign accounts receivable	258	290
Accrued interest on investment	318	398
	$ 6,239	$ 5,592

Note 5 Contributions and Pledges Receivable

	2005	2004 (Restated - Note 22)
Centre for Culinary Arts	$ 1,092	$ 851
NAIT HP Centre	729	1,509
Aboriginal Centre and Mobile Units	606	1,008
General student awards	430	502
Other projects	344	485
Centre for Chemical Studies	231	395
Operating Grants	184	-
Student Awards Endowments	167	232
NAIT Centre for Apprenticeship Technology	150	-
Fuel Cell Applied Research project	128	50
Hands-on Learning Endowments	78	89
Program designated Endowments	20	-
Centre for Welding Technology	10	60
Infrastructure projects	-	18
	$ 4,169	$ 5,199
Presented as:		
Current contributions and pledges	$ 1,307	$ 1,223
Non-current contributions and pledges	2,862	3,976
	$ 4,169	$ 5,199

Note 6 Inventories

	2005	2004 (Restated - Note 22)
Bookstore	$ 2,213	$ 1,795
Resources and Environmental Management	473	428
General stores	379	283
Maintenance	226	222
Farm operations	214	139
Applied Building Science	196	196
Mechanical and Manufacturing Technology	153	155
Electrical and Electronics Technology	140	135
Other	117	136
	$ 4,111	$ 3,489

Note 7 Capital Assets

a) Summary of Cost and Net Book Value

	2005			2004
	Cost and Appraised Value	Accumulated Amortization	Net Book Value	Net Book Value (Restated - Note 22)
Land	$ 34,264	$ -	$ 34,264	$ 33,325
Buildings, leasehold and site improvements	239,321	115,788	123,533	126,240
Furnishings, equipment and vehicles	91,699	64,427	27,272	25,446
Software	7,400	5,949	1,451	895
Leased equipment	2,391	579	1,812	2,063
Library	3,256	1,999	1,257	1,094
Intangibles	5	-	5	-
Projects in progress	3,032	-	3,032	1,140
	$ 381,368	$ 188,742	$ 192,626	$ 190,203

b) Net Book Value of Capital Assets are comprised as follows:

	2005	2004 (Restated - Note 22)
Externally funded (unamortized deferred capital contributions - Note 11)	$ 106,732	$ 106,687
Internally funded (invested in capital assets)	84,199	81,771
Long-term leases (Note 8)	1,695	1,745
	$ 192,626	$ 190,203

c) Capital Acquisitions

Capital acquisitions during the year included certain donations in kind with a fair value of $1,631 (2004: $1,276).

d) Purchase Option

As part of the transfer of certain capital assets to the former Fairview College by the Province in 1978, the Province retained an option to repurchase all or any part of the transferred land and buildings for the nominal amount of $1 per purchase. The recorded net book value of the capital assets transferred is $2,015 (2004 $2,015).

e) Buildings and Site Improvement

In 1994, the former Fairview College entered into an agreement with a third party that gives the College the right to use a portion of a certain building in perpetuity. In consideration, the College paid $300 which comprises a portion of the construction costs and agreed to pay an amount of $1 annually. This building is included in buildings and site improvements at a net book value of $205 (2004 $205).

Note 8 Long-term Leases

The following is a schedule of future minimum payments as of June 30, 2005 under capital leases:

2006	$	548
2007		548
2008		473
2009		285
2010		93
Total minimum lease payments		1,947
Less: long-term lease premium		(252)
	$	1,695
Balance comprised of:		
Current portion of long-term leases	$	548
Long-term leases		1,147
	$	1,695

Note 9 Deferred Contributions

Deferred contributions represent unspent funds externally restricted for non-capital purposes.

	2005	2004 (Restated - Note 22)
Contributions:		
Grants	$ 12,758	$ 14,285
Fundraising and donations	2,555	1,869
Earned revenue programs	481	515
Investment earnings	464	625
	16,258	17,294
Transferred to:		
Grants revenue	(12,921)	(14,235)
Fundraising and donations	(2,424)	(1,105)
Earned revenue programs	(734)	(412)
Investment earnings (Note 15)	(506)	(549)
Endowments (Note 13)	-	(2)
	(16,585)	(16,303)
Change in Deferred contributions	(327)	991
Deferred contributions, beginning of year	6,518	5,527
Deferred contributions, end of year	$ 6,191	$ 6,518
The balance consists of funds restricted for/by:		
Scholarships and bursaries	$ 2,171	$ 2,141
Access programs	1,447	1,744
Infrastructure Maintenance Program	870	1,349
Other	551	694
Alberta Health & Wellness Initiatives	458	-
Supernet	456	-
Aboriginal Programs	98	-
Students Athletics	65	341
Project sponsorships	52	40
Fuel Cell Research and Development	23	-
Renovation projects	-	209
	$ 6,191	$ 6,518

Note 10 Deferred Capital Contributions

Deferred capital contributions represent unspent funds externally restricted for capital purposes.

	2005	2004 (Restated - Note 22)
Contributions:		
Grants - Alberta Government	$ 1,260	$ 6,018
Grants - Fuel Cell Applied Research Project	127	415
Grants - Centre for Manufacturing Solutions	486	-
Fundraising and donations	2,957	3,561
	4,830	9,994
Transfer to grant revenue	-	(165)
Transferred to unamortized deferred capital contributions (Note 11)		
Acquisition of capital assets during year	(7,270)	(5,148)
Reduction of temporary financing of NAIT HP Centre	(654)	(1,719)
Change in Deferred capital contributions	(3,094)	2,962
Deferred capital contributions beginning of year	5,891	2,929
Deferred capital contributions, end of year	$ 2,797	$ 5,891
The balance consists of funds restricted for/by:		
Metrology Lab and Centre for Manufacturing Solutions	$ 937	$ -
Other capital	460	412
NAIT Centre for Apprenticeship Technologies	429	2,000
Fuel Cell Applied Research Project	316	255
Apprenticeship program equipment	282	1,341
Fairview Ice Rink Roof	204	-
Alberta Health & Wellness Initiatives	97	-
Heavy Equipment Technology	43	54
Mobile Education Training Units	29	957
Centre for Culinary Arts	-	213
Duncan McNeill Centre for Innovation	-	659
	$ 2,797	$ 5,891

Note 11 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the external funding of capital assets which will be recognized as revenue in future periods. Changes in the unamortized deferred capital contributions are as follows:

	2005	2004 (Restated - Note 22)
Balance, beginning of year	$ 106,687	$ 107,988
Add:		
Amount transferred from deferred capital contributions (Note 10)		
Acquisition of capital assets during year	7,270	5,148
Reduction of temporary financing of NAIT HP Centre	654	1,719
Less:		
Amortization of deferred capital contributions	(7,879)	(8,168)
Balance, end of year	$ 106,732	$ 106,687

Note 12 Internally Restricted Net Assets

Internally restricted net assets represent those commitments for which the Board has appropriated funds from the unrestricted net assets. These appropriations do not have interest earnings allocated to them. Internally restricted net assets are summarized as follows:

	Balance at beginning of year (Restated - Note 22)	Appropriations from (to) unrestricted net assets	Disbursements during the year	Balance at end of year
Appropriation for capital activities:				
NAIT Centre for Apprenticeship Technologies	$ -	$ 2,542	$ -	$ 2,542
Capital renewal	2,332	102	7	2,427
Information Systems renewal	1,000	1,018	425	1,593
Residence renewal	1,131	(128)	870	133
Revenue sharing	-	62	62	-
	4,463	3,596	1,364	6,695
Appropriation for operating activities:				
Revenue sharing	161	338	43	456
Innovation funding	400	56	25	431
Coursepack royalties	87	112	27	172
Enrolment and other initatives	82	-	69	13
Scholarship and program specific	22	-	3	19
Information Systems renewal	13	232	237	8
Residence renewal	-	128	128	-
	765	866	532	1,099
	$ 5,228	$ 4,462	$ 1,896	$ 7,794

Note 13 Endowments

Endowments consist of restricted donations to the Institute, the principal of which is required to be maintained intact in perpetuity as well as any internal allocations by the Board. The investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board.

	2005	2004 (Restated - Note 22)
Fundraising and donations	$ 665	$ 419
Board approved transfer to unrestricted net assets	-	(313)
Transferred from deferred contributions (Note 9)	-	2
Change in Endowments	665	108
Endowments, beginning of year	11,348	11,240
Endowments, end of year	$ 12,013	$ 11,348
The balance consists of:		
Scholarships and bursaries	$ 8,340	$ 8,063
General	3,282	2,908
Staff Development	391	377
	$ 12,013	$ 11,348

Note 14 Ancillary Services

	2005			2004
	Revenue	Expense	Net	Net (Restated - Note 22)
Bookstore	$ 9,341	$ 9,243	$ 98	$ 306
Food Services	4,304	3,955	349	586
Parking	1,527	1,051	476	616
Residence	636	595	41	77
Recreation and facilities	178	239	(61)	(65)
	$ 15,986	$ 15,083	$ 903	$ 1,520

Note 15 Investment Earnings

	2005	2004 (Restated - Note 22)
Investment earnings from unrestricted sources	$ 3,092	$ 2,109
Investment earnings from restricted sources (Note 9)	506	549
	$ 3,598	$ 2,658

Note 16 Segmented Financial Information

The following provides information on the Institute's operating segments, leading to the calculation of the tuition revenue and net program cost per full load equivalent student for the Certificate, Diploma and Applied Degree Programs, and the Apprenticeship Training Programs:

	Note	Certificate, Diploma and Applied Degree Programs	Apprenticeship Training Programs	Other Programs and Services	Total
a) **Full-load equivalent students (FLE)**	(i)				
2004/05		9,006	2,492		11,498
2003/04 (Restated - Note 22)		8,843	2,675		11,518
b) **Tuition and earned revenue**	(ii)				
2004/05					
Tuition and other fees		$ 22,499	$ 6,074	$ 2,529	$ 31,102
Earned revenue programs		6,923	-	24,259	31,182
		$ 29,422	$ 6,074	$ 26,788	$ 62,284
2003/04 (Restated - Note 22)					
Tuition and other fees		$ 21,528	$ 5,329	$ 2,677	$ 29,534
Earned revenue programs		6,824	-	20,785	27,609
		$ 28,352	$ 5,329	$ 23,462	$ 57,143
c) **Net program cost**	(iii)				
2004/05					
Expenses per financial statements		$ 109,949	$ 43,022	$ 50,399	$ 203,370
Less cost recoveries		(595)	(185)	-	(780)
		$ 109,354	$ 42,837	$ 50,399	$ 202,590
2003/04 (Restated - Note 22)					
Expenses per financial statements		$ 106,001	$ 42,238	$ 47,045	$ 195,284
Less cost recoveries		(507)	(217)	-	(724)
		$ 105,494	$ 42,021	$ 47,045	$ 194,560
d) **Tuition revenue per FLE (in dollars)**					
2004/05		$ 3,267	$ 2,437		
2003/04 (Restated - Note 22)		$ 3,206	$ 1,992		
e) **Net program cost per FLE (in dollars)**					
2004/05		$ 12,142	$ 17,190		
2003/04 (Restated - Note 22)		$ 11,930	$ 15,709		

Note (i) – Full-Load Equivalent Students (FLE)
As defined by Alberta Advanced Education, one full-load equivalent student reflects one student completing the full load for one year of study in a program, or several students combining to complete the equivalent of a normal full load.

Note (ii) - Tuition Revenue
Tuition Revenue for the Certificate, Diploma and Applied Degree segment consist of all tuition fees for credit FLE's, and include tuition fees from credit continuing education courses that are recorded in the Earned Revenue Programs line on the Consolidated Statement of Operations.

Tuition Revenue for the Apprenticeship Training Program segment consist of all fees charged to apprenticeship students in accordance with the rates approved by Alberta Advanced Education.

Revenue for the Other Programs and Services segment consist of fees not subject to the Alberta Advanced Education Tuition Fee Policy as well as all fees charged for non-credit continuing education courses, international education and athletics programs.

Note (iii) - Net Program Cost
Operating expenses are allocated to the operating segments based on the Provincial Program Costing Methodology as recommended by Alberta Advanced Education.

Net program cost for the Other Program and Services segment consists of all expenses not attributed to the Certificate, Diploma and Applied Degree and the Apprenticeship Training Program segment. It includes non-credit continuing education courses, international education projects, athletic programs, ancillary operations (Bookstore, Food Services and Parking) and expenses relating to fundraising events of the NAIT Development Office.

Note 17 Salary and Benefits

(a) Pension Costs (Employee Benefits)

The pension expense recorded in Salary and benefits is equivalent to the Institutes' annual contributions payable of $7,910 for the year ended June 30, 2005 (2004 $6,331).

(b) Salary Disclosure

	2005				2004
	Base Salary	Other Cash Benefits	Other Non-cash Benefits	Total	Total
Chairman of The Board	$ -	$ -	$ -	$ -	$ -
Board Members	-	-	7	7	6
President	207	75	17	299	286
Vice-Presidents					
Finance and Administration	147	22	17	186	178
Academic and Student Services	122	21	17	160	123
External Relations	97	16	18	131	122
Dean, Business Development	116	10	16	142	137

The Chair and members of the Board of Governors receive no remuneration for the services they provide as members of the Board of Governors, with the exception of the two student representatives who receive a benefit equal to their tuition fee.

Base salary includes pensionable base pay. Other cash benefits include bonuses and honoraria. Other non-cash benefits include the Institute's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long-term disability plans and professional memberships required for employment. The President has been provided with an automobile by the Institute for which no amount is included in the other non-cash benefits.

The President received $16 for vacation payouts. This amount is included in other cash benefits above.

The position of Vice President, External Relations was vacant from July 1, 2004 to August 15, 2004.

Note 18 Supplies and Services

Supplies and services are summarized by the following major groupings:

	2005	2004 (Restated - Note 22)
Cost of goods sold	$ 10,887	$ 11,311
Purchased labour	9,094	9,601
Repairs, maintenance and renovations	7,299	5,557
Classroom, lab and office supplies	6,558	6,784
Purchased services	3,405	3,487
Administrative expenses	3,132	3,226
Travel, staff development	3,023	2,586
Meetings, hospitality	857	749
Fundraising and donations	337	553
	$ 44,592	$ 43,854

Note 19 Changes in Non-Cash Working Capital Accounts

	2005	2004 (Restated - Note 22)
Accounts receivable	$ (647)	$ 132
Contributions and pledges receivable	(84)	126
Inventories	(622)	332
Prepaid expenses	(354)	242
Accounts payable and accrued liabilities	1,726	1,668
Accrued vacation pay	991	(674)
Unearned revenue	532	497
Deferred contributions	(327)	991
	$ 1,215	$ 3,314

Note 20 Commitments

The future minimum payments as of June 30, 2005 under operating leases:

2006	$	369
2007	$	241

Total annual commitment for operating costs of the Fairview and District Aquatic Centre:

2006	$	25
2007	$	25
2008	$	25
2009	$	25
2010	$	25
Thereafter	$	25

Note 21 Contingent Liabilities

The Institute is a defendant in a number of legal proceedings. The Institute has recorded a provision in these financial statements based upon Management's estimates of the potential outcome of such proceedings. Additional costs of settling these claims, if any, will be charged to operations upon settlement, which in Management's opinion will not have a material effect on the financial position of the Institute.

Note 22 Restatement of Prior Period

a) Amalgamation with Fairview College

Effective July 1, 2004, NAIT and Fairview College amalgamated, as envisioned by a Partnership Agreement dated April 14, 2003 that was signed by both institutions and the Minister of Learning. The Partnership Agreement formed the basis of an Agreement for the Transfer of Fairview College, which was signed by the Minister of Learning and both institutions in May 2004. Under this Agreement, all assets, liabilities, net assets, revenues and expenditures of Fairview College were transferred to the Institute effective July 1, 2004.

The June 30, 2004 amounts in these financial statements have been restated to include the assets, liabilities, net assets, revenues and expenditures of the former Fairview College, which have been reclassified to conform with NAIT's presentation.

Assets	
Current:	
Cash and Short-term investments	$ 9,855
Account receivable	665
Inventories	228
Prepaid expenses	72
Long-term investments	3,762
Capital assets	18,894
	$ 33,476
Liabilities and Net Assets	
Current:	
Accounts payable and accrued liabilities	$ 1,532
Accrued vacation pay	587
Unearned revenue	56
Deferred contributions	1,429
Deferred capital contributions	265
Unamortized deferred capital contributions	10,111
	13,980
Net Assets:	
Unrestricted net assets	5,154
Internally restricted	3,485
Invested in capital assets	8,783
Endowments	2,074
	19,496
	$ 33,476

Revenue:	
Grants	$ 14,697
Earned revenue programs	557
Tuition and other fees	2,996
Ancillary services	1,241
Amortization of deferred capital contributions	1,784
Sales, rentals, services and other	728
Investment earnings	360
Fundraising and donations	141
	22,504
Expense	
Salary and benefits	11,655
Supplies and services	5,439
Amortization of capital assets	2,046
Utilities	1,096
Facilities rentals	198
Scholarships, bursaries and prizes	94
Loss on disposal of capital assets	502
	21,030
Excess of revenue over expense	1,474
Net endowment contributions	139
Change in net asset balance	1,613
Net asset balance, beginning of year	17,883
Net asset balance, end of year	$ 19,496

b) Capitalization of renovation project

During the year the Institute capitalized the costs of a major renovation project, which started in the 2002/03 fiscal year, when it was determined that this renovation enhanced the service potential of the renovated area.

This project was funded from external contributions and fundraising projects held by the Institute. These costs were previously expensed, and the related contributions were recorded as fundraising and donation revenue in accordance with the Institute's accounting policy. The prior years consolidated financial statements have been restated to correctly capitalize the costs, record the restricted contributions in deferred capital contributions and unamortized deferred capital contributions as appropriate, and to properly classify the pledges and contributions receivable as non-current.

The effect of this adjustment on the June 30, 2004 consolidated financial statements is as follows:

		Increase (decrease)
Consolidated Statement of Financial Position		
Assets		
Current contributions and pledges receivable	$	(851)
Non-current contributions and pledges receivable	$	851
Capital assets	$	1,037
Liabilities		
Deferred contributions	$	(213)
Deferred capital contributions	$	213
Unamortized deferred capital contributions	$	1,037
Consolidated Statement of Operations and Changes in Net Assets		
Revenues		
Fundraising and donations	$	(1,027)
Expenses		
Supplies and services	$	(1,027)

c) Unamortized Deferred Capital Contributions and Invested in Capital Assets

During the year the Institute upgraded its financial system, including the asset management system used to track individual assets and funding sources. With this upgrade it was determined that the reported unamortized deferred capital contributions was higher than the amount indicated by the asset management system. As a result, the prior years financial statements have been restated by decreasing the unamortized deferred capital contributions by $2,541 with a corresponding increase to the amount invested in capital assets.

The effect of the adjustment on the consolidated statement of financial position for the year ended June 30, 2004 is as follows:

Unamortized Deferred Capital Contributions	
Balance as previously reported	$ 98,080
Add Fairview College (see Note 22(a))	10,111
Add capitalization of renovation project (see Note 22(b))	1,037
Adjustment	(2,541)
Balance, as restated	$ 106,687

Invested in Capital Assets	
Balance as previously reported	$ 70,447
Add Fairview College (see Note 22(a))	8,783
Adjustment	2,541
Balance, as restated	$ 81,771

The effect of the adjustment on the consolidated statement of operations and change in net assets for the year ended June 30, 2004 as follows:

Net asset balance, beginning of year	
Balance as previously reported	$ 81,751
Add Fairview College (see Note 22(a))	17,883
Adjustment	2,541
Balance, as restated	$ 102,175

Net asset balance, end of year	
Balance as previously reported	$ 88,817
Add Fairview College (see Note 22(a))	19,496
Adjustment	2,541
Balance, as restated	$ 110,854

This adjustment has no impact on excess of revenue over expense.

Note 23 Funds Held on Behalf of Others

The Institute holds the following funds on behalf of others over which the Board has no power of appropriation. Accordingly, these funds are not included in the consolidated financial statements.

	2005	2004
Government of Alberta Individual Learning Modules	$ 1,747	$ 1,261
NAIT Student's Association	246	204
Alberta Association of Colleges and Technical Institutes	129	185
Government of Alberta Diagnostic Imaging Projects	123	123
Government of Alberta Apprenticeship Initiative	-	1
	$ 2,245	$ 1,774

Note 24 Related Party Transactions

The Institute is a Provincial Corporation as all the members of the Board of Governors are appointed by statute (the Post-secondary Learning Act) or by combination of orders by the Lieutenant Governor-in-Council and the Minister of Advanced Education.

The Institute received the following grants from the Province of Alberta:

	2005			
	Deferred contributions	Deferred capital contributions	Grant revenue	Total
Alberta Advanced Education				
Regular Operating	$ -	$ -	$ 94,694	$ 94,694
Operating and Maintenance	-	-	4,012	4,012
Performance funding	-	-	574	574
Access Funding	11,237	152	-	11,389
Conditional	840	112	-	952
Alberta Infrastructure				
Infrastructure Maintenance	71	-	-	71
Alberta Education	27	-	-	27
Alberta Innovation and Science	-	500	-	500
Alberta Health and Wellness	580	292	-	872
Northern Development - Aboriginal	3	-	-	3
Alberta Lottery Fund (CFEP)	-	204	-	204
	12,758	1,260	99,280	113,298
Deferred contributions recognized as grant revenue	(12,921)	-	12,921	-
	$ (163)	$ 1,260	$ 112,201	$ 113,298

	2004 (Restated - Note 22)			
	Deferred contributions	Deferred capital contributions	Grant revenue	Total
Alberta Learning				
Regular Operating	$ -	$ -	$ 93,692	$ 93,692
Operating and Maintenance	-	-	2,740	2,740
Performance funding	-	-	966	966
Access Funding	12,926	1,847	472	15,245
Conditional	631	-	-	631
NAIT/Fairview College transition	230	200	-	430
Alberta Infrastructure				
Infrastructure Maintenance	498	3,901	-	4,399
Alberta Finance	-	-	21	21
Other	-	70	-	70
	14,285	6,018	97,891	118,194
Deferred contributions recognized as grant revenue	(14,235)	(165)	14,400	-
	$ 50	$ 5,853	$ 112,291	$ 118,194

In 2005, the Institute provided courses to provincial government departments and participated in the development, sale and offering of certain courses with other public colleges and the Southern Alberta Institute of Technology. The revenues and expenses incurred for these have been included in the consolidated statement of operations but have not been separately quantified. These transactions were entered into on the same business terms as with non-related parties and are recorded at fair market value.

Note 25 Planned Expansion in Apprenticeship Training Capacity

The Institute has started construction on the $68 million NAIT Centre for Apprenticeship Technologies (NCAT). On April 25, 2004, the Alberta government announced capital funding support for this project in the amount of $40,000, with an additional $4,000 subsequently committed to address extraordinary escalation within the construction industry for the first two phases of the project, Souch Campus and Main Campus. The remaining $23,800 (37.3%) is to come from NAIT's annual capital budget and other capital contributions over the next five years. As at June 30, 2005, NAIT has received $2,000 of the Provincial funding support, of which $1,571 has been spent, with the balance of $429 being recorded in deferred capital contributions.

The NAIT Centre For Apprenticeship Technologies expands apprenticeship technical training on three of NAIT's Edmonton campuses, namely Main campus, Souch campus, and Patricia campus, and also includes an apprenticeship technical training campus in Grande Prairie.

Note 26 Budget

The Institute's Board of Governors approved the following consolidated operating budget at the May 3, 2004 Board meeting. At that meeting, the Board also approved capital expenditures and appropriations of $7,308.

Revenue:		
Grants	$	109,521
Tuition and other fees		31,888
Earned revenue programs		29,947
Ancillary services		16,672
Amortization of deferred capital contributions		7,555
Sales, rentals and services		4,433
Investment earnings		2,675
Fundraising and donations		1,185
		203,876
Expense:		
Salary and benefits		134,890
Supplies and services		44,536
Amortization of capital assets		14,863
Utilities		7,964
Facilities rentals		742
Scholarships and bursaries		781
Loss on disposal of capital assets		100
		203,876
Excess of revenue over expense		-
Adjust for non-cash items		
Amortization of capital assets		14,863
Amortization of deferred capital contributions		(7,555)
Cash available for capital budget and appropriation		7,308
Book value of disposed capital assets		330
Release of Internally Restricted Net Assets for current operating activities		500
Contribution to annual capital budget		(4,748)
Contribution to campus expansion		(746)
Contribution to campus renewal or equipment		(1,754)
Repayment of long-term lease		(490)
Appropriation to Revenue Sharing Plan		(400)
Balanced budget	$	-

Note 27 Approval of Consolidated Financial Statements

These consolidated financial statements were approved by the Board of Governors.

SOUTHERN ALBERTA INSTITUTE
OF TECHNOLOGY
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Consolidated Statement of Supplementary Performance Information

Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of the Southern Alberta Institute of Technology

I have audited the consolidated statement of financial position of the Southern Alberta Institute of Technology as at June 30, 2005 and the consolidated statements of operations, changes in net assets, and cash flows for the year then ended. I have also audited the consolidated statement of supplementary performance information for the year ended June 30, 2005. These consolidated financial statements are the responsibility of the Institute's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Institute as at June 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

In my opinion, the consolidated statement of supplementary performance information presents fairly, in all material respects, the Institute's performance in accordance with the disclosed basis of measurement and presentation as described in the notes to the statements.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
September 2, 2005

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30 (in thousands)	2005	2004
ASSETS		
Current assets:		
Cash and short-term investments (Note 3)	$ 46,189	$ 36,956
Accounts receivable (Note 4)	6,510	6,918
Inventories (Note 5)	2,055	1,914
Prepaid expenses	423	445
	55,177	46,233
Investments (Note 3)	11,777	13,311
Capital assets (Note 6)	206,942	204,988
	$ 273,896	$ 264,532
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued liabilities (Note 7)	$ 21,807	$ 16,689
Accrued vacation pay	8,561	8,030
Unearned revenue (Note 8)	7,894	7,482
Deferred salary plans	462	404
Deferred contributions (Note 10)	9,461	14,757
Current portion of long-term liabilities (Note 12)	685	549
	48,870	47,911
Deferred capital contributions (Note 11)	2,120	4,090
Long-term liabilities (Note 12)	19,593	19,705
Unamortized deferred capital contributions (Note 13)	120,280	120,758
	190,863	192,464
Net assets:		
Unrestricted net assets (deficiency)	6,678	(1,310)
Invested in capital assets (Note 14)	66,698	64,157
	73,376	62,847
Endowments (Note 15)	9,657	9,221
	83,033	72,068
	$ 273,896	$ 264,532

Commitments and Contingencies (Note 25)

Approved by the Board of Governors:

Clare Rhyasen

Douglas H. Mitchell, Q.C., Chair of the Board

Clare Rhyasen, C.A., Chair of the Audit Committee

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

	2005		2004
For the year ended June 30 (in thousands)	Budget	Actual	Actual
	(Note 17)		
Revenue:			
Grants	$ 87,116	$ 92,892	$ 88,754
Earned revenue programs	36,927	36,993	34,978
Tuition and related fees	31,412	32,467	29,116
Commercial services	22,742	18,135	17,705
Sales, rentals and services	3,174	3,560	4,145
Investment income (Note 3)	550	1,562	787
Donations, contributions and income on restricted contributions (Note 24)	7,551	6,751	6,765
	189,472	192,360	182,250
Earned capital contributions (Note 13)	7,878	9,769	7,582
	197,350	202,129	189,832
Expense:			
Salaries, wages and benefits (Note 18)	115,046	110,042	106,042
Supplies and services (Note 24)	40,904	38,233	38,021
Repairs and maintenance	9,675	11,610	8,986
Utilities	8,349	8,794	8,425
Interest expense	1,293	1,321	4,046
Scholarships and projects	4,311	3,004	3,235
Amortization of capital assets	16,370	17,565	14,647
Loss on disposal of capital assets	1,102	1,031	1,807
	197,050	191,600	185,209
Excess of revenue over expense	$ 300	$ 10,529	$ 4,623

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended June 30 (in thousands)			2005			2004
	Unrestricted	Investment in Capital Assets	Subtotal	Endowments	Total	Total
Excess of revenue over expense	$ 10,529	$ -	$ 10,529	$ -	$ 10,529	$ 4,623
Transfers for:						
Acquisition of capital assets	(11,928)	11,928	-	-	-	-
Repayment of long-term liabilities related to capital assets	(629)	629	-	-	-	-
Amortization of capital assets	7,796	(7,796)	-	-	-	-
Disposition of capital assets	2,220	(2,220)	-	-	-	-
Endowment contributions	-	-	-	436	436	637
Increase in net assets	7,988	2,541	10,529	436	10,965	5,260
Net assets, beginning of year	(1,310)	64,157	62,847	9,221	72,068	66,808
Net assets, end of year	$ 6,678	$ 66,698	$ 73,376	$ 9,657	$ 83,033	$ 72,068

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30 (in thousands)	2005	2004
Operating Activities:		
Excess of revenue over expense	$ 10,529	$ 4,623
Non-cash transactions:		
Amortization of capital assets	17,565	14,647
Earned capital contributions (Note 13)	(9,769)	(7,582)
Loss on disposal of capital assets	1,031	1,807
Increase in unfunded employee benefits	133	181
	19,489	13,676
Changes in non-cash working capital (Note 21)	1,112	11,105
Cash generated from operating activities	20,601	24,781
Investing Activities:		
Acquisition of capital assets	(21,739)	(22,047)
Redemption of investments, net	1,534	25,244
Proceeds from disposal of capital assets	1,189	501
Decrease in long-term receivable	-	544
Cash generated from (used in) investing activities	(19,016)	4,242
Financing Activities:		
Proceeds from long-term liabilities	520	-
Repayment of long-term liabilities	(629)	(40,151)
Endowment contributions	436	637
Contributed equipment (Note 13)	857	626
Capital contributions (Note 11)	6,464	41,909
Cash generated from financing activities	7,648	3,021
Increase in cash and short-term investments	9,233	32,044
Cash and short-term investments, beginning of year	36,956	4,912
Cash and short-term investments, end of year	$ 46,189	$ 36,956

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SUPPLEMENTARY PERFORMANCE INFORMATION

	2005		2004
For the year ended June 30	Budget	Actual	(Restated)
Full-load equivalent students (Note 19)	**11,641**	**11,563**	11,608
Academic program cost per full-load equivalent student (Note 19)	**$ 14,429**	**$ 14,587**	$ 14,004
Student hours (contact or equivalent) (Note 19)		**9,506,171**	9,642,832
Academic program cost per student hour (Note 19)		**$ 18**	$ 17
Students surveyed during the fiscal year who completed an Applied Degree, Diploma or Certificate program during the year ended June 30, 2004 (2003 for comparative figures) (Note 20):			
Annualized salary median for those with full-time employment		**$ 33,000**	$ 30,000
Employment rate:			
Full-time		**77%**	73%
Contract, part-time or temporary		**21%**	24%
Overall		**98%**	97%

The accompanying notes are part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005

NOTE 1 AUTHORITY

The Southern Alberta Institute of Technology operates under the authority of the Post-Secondary Learning Act, Chapter P-19.5, Statutes of Alberta 2003. The Institute provides educational programs to provide a skilled, productive work force for the economic development of Alberta and Canada. The Institute is exempt from payment of income tax and is also a registered charity under the Income Tax Act. The Institute was established as a board governed institution on April 1, 1982.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

(a) General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events and, as such, the preparation of these financial statements requires the use of estimates, which may vary from actual results. These financial statements include supplementary performance information in accordance with the following guidelines:

(i) Supplementary performance information should be understandable, relevant, reliable and comparable. Supplementary performance information should be limited to a few key performance measures which influence decisions.

(ii) Supplementary performance information should include measurable information on the Institute's outputs.

(iii) Supplementary performance information should support efforts to evaluate cost effectiveness. Information on the costs of the Institute's outputs should be linked with information on the results these outputs achieve.

(b) Consolidated Statements

These consolidated financial statements include the accounts of The Learning Management Corporation, a wholly owned subsidiary incorporated under the Business Corporations Act of Alberta and the Institute's proportionate interest in PanGlobal Training Systems Limited, a joint venture with the Northern Alberta Institute of Technology and the British Columbia Institute of Technology.

(c) Revenue Recognition

Operating grants, including grants from the Province of Alberta, are recognized as revenue, either in the period receivable, or, where a portion of the grant relates to a future period, the portion is deferred and recognized in the subsequent period.

Grants for capital acquisitions, including grants from the Province of Alberta, are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing funded capital assets and contributions of property are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded. The related portion of amortization expense and the earned capital contributions revenue are matched to indicate that the related amortization expense has been funded.

Unrestricted cash donations are recognized as revenue when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Note 2 Significant Accounting Policies (continued)

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expense is incurred. Externally restricted amounts can only be used for purposes designated by external parties. Any externally restricted contributions containing stipulations that the amounts should be retained as net assets or that the contributions should not be expended are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property.

Amounts received for tuition fees, earned revenue programs, and sale of goods and services are classified as unearned and recognized as revenue at the time the goods are delivered or the services are provided.

(d) Investments

Short-term investments are recorded at the lower of cost or market value. Investments not available for current purposes are recorded at cost. Gains and losses on investments are recognized at realization, or when there is an other than temporary decline in the value of an investment.

(e) Capital Assets

As determined by an independent appraisal as at April 1982, land was recorded at fair market value and buildings were recorded at amortized replacement cost. Subsequent additions are recorded at cost.

Furnishings, equipment and computer software are recorded at cost. Donated assets are recorded at fair market value at the time of receipt of the donation.

Capital assets are amortized on a straight-line basis over the following average useful lives:

Buildings	40 years
Renovations	10 - 25 years
Furnishings, equipment, and library	10 years
Computer servers	3 - 10 years
Vehicles	5 years
Computer hardware and software	3 years
Leasehold improvements	Length of lease

Construction in progress includes the direct construction costs and overhead costs directly attributable to the construction including engineering and legal fees and interest on specific debt attributed to the construction of capital assets. Construction projects in progress are not amortized until the project is ready for use.

The fair value of a liability for an asset retirement obligation is recognized in the period incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the asset and amortized over its estimated useful life.

When events and circumstances indicate that a capital asset no longer has any service potential, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations.

(f) Inventories

Inventory of bookstore, materials and supplies merchandise is maintained using the first-in first-out method of costing. Food stores inventory is maintained using average costing. All inventory is valued at the lower of cost or net realizable value.

Note 2 Significant Accounting Policies (continued)

(g) Employee Future Benefits

The Institute participates in the Local Authorities Pension Plan. This pension plan is a multi-employer defined benefit pension plan that provides pensions for the Institute's participating employees based on years of service and earnings. This plan is accounted for as a defined contribution pension plan in the Institute's financial statements because the Institute has insufficient information to apply defined benefit accounting.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the pension plan. The Institute does not record the Institute's portion of the pension plans' deficit or surplus.

The Institute offers a defined contribution pension plan for eligible employees. The Institute's contributions are based on a percentage of the employee's salary. The pension expense included in these financial statements represents the Institute's required contributions under the plan.

The Institute maintains a supplemental pension plan for certain designated executives of the Institute. The cost of the pension is actuarially determined using the projected benefit method pro-rated on services, a market interest rate, and management's best estimate of economic assumptions. Past service costs and experience gains and losses are amortized on a straight-line basis over the expected average remaining service term of the active membership of the plan. The most recent actuarial valuation of the obligation was performed for July 1, 2003 and the next actuarial valuation will be performed for July 1, 2006.

The Institute also provides employee future benefits in the form of compensated absences. Costs for these benefits are estimated using reasonable assumptions and are included in these financial statements.

(h) Financial Instruments

The fair values of the Institute's accounts receivable, accounts payable and accrued liabilities, and accrued vacation pay approximate their carrying values due to the relatively short periods to maturity of these instruments.

The Institute uses forward exchange contracts to manage its foreign currency exposure. The Institute does not use derivative financial instruments for trading or speculative purposes and does not apply hedge accounting. Forward contracts are carried at fair value on a gross basis in the consolidated statement of financial position with changes in fair value recognized in income.

NOTE 3 CASH AND INVESTMENTS

	2005				2004	
(in thousands)	**Cash and Short-Term Investments**	**Long-Term Investments**	**Total Cost**	**Market**	Total Cost	Market
Cash	**$ (2,904)**	**$ -**	**$ (2,904)**	**$ (2,904)**	$ 1,108	$ 1,108
Money market investments	**49,093**	**2,816**	**51,909**	**52,133**	40,943	41,036
Bonds	**-**	**2,781**	**2,781**	**2,950**	2,768	2,781
Equities	**-**	**6,180**	**6,180**	**6,812**	5,448	5,906
Total	**$ 46,189**	**$ 11,777**	**$ 57,966**	**$ 58,991**	$ 50,267	$ 50,831

The overall rate of return for the year was 3.70% (2004 - 4.24%). The effective yield on the money market investments is 2.57% (2004 - 1.96%) and the effective yield on bond investments is 3.70% (2004 – 4.56%). Money market investments mature within 90 days while bond investments have a maturity of up to 24 years. The Institute's investment policies limit investments to credit-worthy counterparties and specify minimum and maximum exposures to certain issuers.

Investment income earned on the above investments has been recorded as follows:

(in thousands)	2005	2004
Investment income	**$ 1,562**	$ 787
Deferred contributions and deferred capital contributions	**598**	500
Capitalized to endowments	**43**	81
Total investment income earned	**$ 2,203**	$ 1,368

NOTE 4 ACCOUNTS RECEIVABLE

(in thousands)	2005	2004
Student	**$ 47**	$ 133
Corporate	**4,206**	3,523
Other	**2,257**	3,262
	$ 6,510	$ 6,918

NOTE 5 INVENTORIES

(in thousands)	2005	2004
Bookstore	**$ 1,442**	$ 1,201
Material and supplies	**456**	571
Food stores	**157**	142
	$ 2,055	$ 1,914

NOTE 6 CAPITAL ASSETS

(in thousands)		Cost		2005 Accumulated Amortization		Net Book Value		2004 Net Book Value
Land and improvements	$	23,627	$	-	$	23,627	$	23,792
Buildings and renovations		304,067		146,573		157,494		144,345
Furnishings, equipment, and library		56,438		38,449		17,989		17,531
Vehicles		1,149		1,045		104		171
Computer hardware and software		39,330		32,088		7,242		6,099
TLM license		1,122		1,122		-		-
Construction in progress		486		-		486		13,050
	$	426,219	$	219,277	$	206,942	$	204,988

Capital acquisitions during the year included donations in kind in the amount of $857,291 (2004 - $625,490).

At June 30, 2005, the Institute had assets under capital lease with a cost of $1,107,565 (2004 - $413,873) and accumulated amortization of $184,372 (2004 - $78,913).

During the year, the Institute recognized an impairment charge of $1,550,272 relating to a residence building as the asset no longer has any service potential. The impairment charge is included in amortization expense and an equal amount of earned capital contribution revenue is recognized at June 30, 2005.

The Institute has recorded a liability for an asset retirement obligation of $2,174,678 (2004 – Nil). The asset retirement obligation represents the legal obligation associated with the eventual disposition of a residence building. The full amount of the obligation is included in amortization expense at June 30, 2005. The Institute has also identified other asset retirement obligations for which the fair value cannot be reasonably estimated due to the indeterminate timing and scope of the asset retirements. The asset retirement obligation for these assets will be recorded in the period in which there is sufficient information to estimate fair value.

NOTE 7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands)		2005		2004
Trade	$	10,681	$	6,706
Salaries, wages and benefits		6,795		5,952
Construction		2,466		2,406
Other		1,865		1,625
	$	21,807	$	16,689

NOTE 8 UNEARNED REVENUE

(in thousands)		2005		2004
Tuition, application fees and prepayments	$	7,349	$	6,750
Earned revenue programs		367		402
Commercial services and other		178		330
	$	7,894	$	7,482

NOTE 9 EMPLOYEE FUTURE BENEFITS

The Institute provides compensated absences for its employees under a special leave plan. Under this plan, employees contribute 15% of their gross monthly earnings for a contributory period of four years. For the fifth year, employees receive 85% of their gross salary as of the last day of their contributory period. The Institute funds the shortfall between the contributed funds, including interest earned, and the gross salary to be paid in the fifth year. The Institute's liability under this plan included in these financial statements is $178,442 (2004 - $158,923) and has been discounted at a rate of 5%.

The Institute's pension expense attributable to the multi-employer plan was $5,275,832 (2004 - $4,323,371), the Institute's pension expense attributable to the supplemental defined benefit plan was $133,705 (2004 - $120,190), and the Institute's pension expense attributable to the defined contribution plan was $97,650 (2004 - $77,004).

The Institute has an unfunded supplementary pension plan for its President and certain designated executives. The accrued liability recorded in the Institute's financial statements is $314,439 (2004 - $180,735). The accrued benefit obligation at June 30, 2005, was $511,000 (2004 - $441,000). The accrued benefit obligation was calculated using a discount rate of 6.25% (2004 - 6.25%) and a rate of increase in future compensation of 4.0% (2004 - 4.0%).

At December 31, 2004, the Local Authorities Pension Plan reported a deficiency of $1,288,924,000 (2003 - deficiency of $1,453,487,000). Effective January 1, 2004, the employers' contribution rates were increased by 1.077%.

NOTE 10 DEFERRED CONTRIBUTIONS

(in thousands)	2005	2004
Increase during the year:		
Access grants	$ 9,553	$ 14,191
Donations	3,386	3,393
Infrastructure renewal grant	356	3,724
Other grants	4,391	3,000
Restricted income	583	500
	18,269	24,808
Transfers:		
To grant revenue	(16,689)	(15,315)
To donations, contributions, and income on restricted contributions	(3,471)	(3,517)
From (to) deferred capital contributions (Note 11)	(3,405)	650
	(23,565)	(18,182)
Balance, beginning of year	14,757	8,131
Balance, end of year	$ 9,461	$ 14,757

The balance of deferred contributions is comprised of:

(in thousands)	2005	2004
Program delivery	$ 4,661	$ 7,741
Scholarships	1,457	1,306
Other	3,343	5,710
	$ 9,461	$ 14,757

Deferred contributions for program delivery consist primarily of Access program funding.

NOTE 11 DEFERRED CAPITAL CONTRIBUTIONS

(in thousands)	**2005**	2004
Increase during the year:		
Grants and donations	**$ 3,059**	$ 4,559
Transfers from (to) deferred contributions (Note 10)	**3,405**	(650)
Infrastructure debt retirement	**-**	38,000
	6,464	41,909
Transfers to unamortized deferred capital contributions:		
Restricted capital funds	**(4,113)**	(47,747)
Infrastructure renewal funding	**(2,123)**	(690)
Access funding	**(884)**	(1,040)
Other grants and donations	**(1,314)**	(2,261)
	(8,434)	(51,738)
Balance, beginning of year	**4,090**	13,919
Balance, end of year	**$ 2,120**	$ 4,090

The balance of deferred capital contributions is comprised of:

(in thousands)	**2005**	2004
Grants and donations	**$ 2,120**	$ 2,075
AeroCentre project funding	**-**	2,015
	$ 2,120	$ 4,090

NOTE 12 LONG-TERM LIABILITIES

Amount Outstanding (in thousands)	**2005**	2004
Construction financing for second student residence (a)	**$ 19,421**	$ 19,891
Capital lease obligations (b)	**543**	182
Employee benefit liabilities (Note 9)	**314**	181
	20,278	20,254
Less: current portion	**(685)**	(549)
	$ 19,593	$ 19,705

Principal payments during the next five fiscal years on long-term liabilities are as follows:

(in thousands)	
2005/06	$ 685
2006/07	647
2007/08	673
2008/09	714
2009/10	662

Note 12 Long-Term Liabilities (continued)

Cash interest of $1,321,361 was paid in 2005 (2004 - $3,996,180).

(a) Pursuant to a loan agreement with the Alberta Capital Finance Authority, entered into on June 16, 2000, the Institute borrowed the sum of $21.5 million to finance the construction of a new student residence. The loan bears interest at 6.5% per annum and matures June 16, 2025. Security pledged for the loan includes all future cash flows generated through the operation of the new student residence.

(b) The average implicit interest rate payable on these leases is 6.4% (2004 – 8.4%). Interest of $28,451 (2004 - $17,171) has been charged to expense during the year.

NOTE 13 UNAMORTIZED DEFERRED CAPITAL CONTRIBUTIONS

Changes in unamortized deferred capital contributions are as follows:

(in thousands)		2005		2004
Transferred from deferred capital contributions (Note 11)	$	**8,434**	$	51,738
Contributed equipment		**857**		626
Transferred to revenue		**(9,769)**		(7,582)
Increase (decrease) during the year		**(478)**		44,782
Unamortized deferred capital contributions, beginning of year		**120,758**		75,976
Unamortized deferred capital contributions, end of year	$	**120,280**	$	120,758

NOTE 14 INVESTED IN CAPITAL ASSETS

(in thousands)		2005		2004
Capital assets	$	**206,942**	$	204,988
Capital assets financed by long-term liabilities (Note 12)		**(19,964)**		(20,073)
Unamortized deferred capital contributions (Note 13)		**(120,280)**		(120,758)
	$	**66,698**	$	64,157

NOTE 15 ENDOWMENTS

Endowments consist of restricted donations to the Institute, the principal of which is required to be maintained intact in perpetuity as well as any internal allocations by the Board. The investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Board.

Endowments on a cumulative basis:

(in thousands)		2005		2004
Externally restricted	$	**8,657**	$	8,221
Internal allocations		**1,000**		1,000
	$	**9,657**	$	9,221

NOTE 16 RELATED PARTY TRANSACTIONS

The Institute is a Provincial Corporation as all the members of the Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions in the current period between the Institute and the Province were as follows:

	2005		2004	
(in thousands)	**Revenue**	**Deferred Contributions/ Unamortized Deferred Capital Contributions**	Revenue	Deferred Contributions/ Unamortized Deferred Capital Contributions
Alberta Advanced Education:				
Operating grant	**$ 76,454**	**$ -**	$ 72,838	$ -
Access	**13,116**	**2,922**	9,618	7,524
Performance funding	**915**	**-**	760	-
Miscellaneous grants	**1,220**	**358**	2,342	3
	91,705	**3,280**	85,558	7,527
Other provincial departments and agencies:				
Infrastructure renewal	**827**	**353**	-	4,413
AeroCentre funding	**-**	**-**	-	12,000
Infrastructure debt retirement	**-**	**-**	2,514	35,486
Miscellaneous grants	**631**	**1,293**	346	-
	$ 93,163	**$ 4,926**	$ 88,418	$ 59,426

Included in earned revenue, tuition fees, and sales, rentals and services are additional revenues received from Alberta Advanced Education and Alberta Human Resources and Employment that amount to $107,670 (2004 - $384,420) and $2,731,116 (2004 - $2,624,743) respectively. At June 30, 2005, the accounts receivable balance included an amount of $200,607 (2004 - $187,784) due from Alberta Advanced Education.

During 2004 and 2005, the Institute had business transactions with corporations for which certain Board members of the Institute served as senior management. These transactions were at market prices on normal terms of purchase and sale.

In 2004 and 2005, the Institute participated in offering certain courses with other public colleges and universities. The revenues and expenses incurred for these courses have been included in the consolidated statement of operations, but have not been separately quantified.

In addition, the Institute provides systems support to some other public colleges. The revenues and expenses incurred for these services have been included in the consolidated statement of operations. Revenue from these agreements in the amount of $189,889 (2004 - $185,028) is included in these financial statements. These transactions were entered into on the same business terms as with non-related parties and are recorded at their fair value amounts.

The Institute owns the land and building currently being used by the Alberta College of Art and Design ("ACAD"). This use is granted through a facility license agreement in place between the Institute and ACAD. The term of the license is through a renewable contractual agreement between the two parties determined at the pleasure of the Minister of Advanced Education. The Institute has Infrastructure Renewal Funds totaling $746,180 to be utilized for the maintenance of the building being used by ACAD. During the year, no funds were utilized for this purpose. The land, building and Infrastructure Renewal Funds have not been recorded in these financial statements.

NOTE 17 BUDGET

On May 25, 2004, the Board of Governors approved the revenue and expense budget for the year ended June 30, 2005.

NOTE 18 SALARY DISCLOSURE

	2005				2004
(in thousands)	Base Salary [1]	Other Cash Benefits [2]	Other Non-Cash Benefits [3]	Total	Total
Executives:					
President & CEO	$ 183	$ 40	$ 89	$ 312	$ 245
Vice President, Academic	151	28	38	217	192
Vice President, Finance & CFO	151	28	47	226	201
Vice President, Employee & Student Services	151	28	30	209	187
Vice President, External Relations	151	28	29	208	183
Board of Governors:					
Chairman of the Board [4]	-	-	-	-	-
Board Members [4]	-	12	-	12	12

[1] Base salary includes pensionable base pay.

[2] Other cash benefits include performance payments, overtime, lump sum payments and honoraria.

[3] Other non-cash benefits include the Institute's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short- and long-term disability plans, professional memberships, as well as payments for the supplemental executive retirement plan. An automobile is provided to each executive, but no dollar amount is included in the non-cash benefits figures.

[4] Some members do not accept honoraria.

NOTE 19 SEGMENTED INFORMATION

For purposes of internal management and decision making, SAIT divides its operations into four reportable business streams: Grant Funded, Earned Revenue, Commercial Services and Fund Development. Grant funded includes all programs supported by Alberta Advanced Education. Earned Revenue provides career development, continuing education and corporate customized training. Commercial Services consists of Food Services, Bookstore, Parking, Graphics, Student Residence, and Conference Services. Fund Development provides all fundraising initiatives at SAIT in the areas of unrestricted donations, project scholarships, capital projects, and equipment.

Certain comparative information has been restated to reflect changes in the costing of operating segments, finalization of enrolment counts and finalization of student hours. Supplemental performance information has therefore been restated as follows:

	2004	
	As previously reported	As restated
Student hours (contact or equivalent)	9,662,177	9,642,832
Full-load equivalent students (FLE)	11,568	11,608
Academic program cost per FLE student	$ 14,099	$ 14,004
Average student hours per FLE	835	831

Note 19 Segmented Information (continued)

The $95 decrease in academic cost per full-load equivalent student is comprised of a decrease of $67 for fundraising expenses moved to the Fund Development stream from Grant Stream, an increase of $31 for revenue and expenses moved to Grant Stream from Commercial Services, a decrease of $11 for salaries moved from the Grant Stream to the Commercial Services and Fund Development streams and a decrease of $48 due to finalization of standard program hours with Advanced Education which increased the total number of full load equivalent students. The decrease in student hours is due to finalization of student hours with Advanced Education.

The accounting policies of the segments are the same as those described in Note 2.

	Academic Streams		Non-Academic Streams			
For the year ended June 30, 2005 (in thousands)	Grant Funded Programs	Earned Revenue	Commercial Services	Fund [5] Development	Inter-departmental Eliminations	Total
Revenue	**$ 143,294**	**$ 36,993**	**$ 22,962**	**$ 3,773**	**$ (4,893)**	**$ 202,129**
Direct cost [1]	**58,535**	**22,621**	**18,041**	**3,004**	**(4,893)**	**97,308**
Academic support [2]	**18,663**	**5,587**	**-**	**-**	**-**	**24,250**
Support services [3]	**28,688**	**5,122**	**-**	**2,542**	**-**	**36,352**
Institutional costs [4]	**13,165**	**-**	**608**	**-**	**-**	**13,773**
Interest expense	**29**	**-**	**1,292**	**-**	**-**	**1,321**
Amortization & loss on disposal	**17,377**	**-**	**1,219**	**-**	**-**	**18,596**
Total expenses	**136,457**	**33,330**	**21,160**	**5,546**	**(4,893)**	**191,600**
Net	**$ 6,837**	**$ 3,663**	**$ 1,802**	**$ (1,773)**	**$ -**	**$ 10,529**
Student hours (contact or equivalent) [6]	**6,844,213**	**2,661,958**	**-**	**-**	**-**	**9,506,171**
Full-load equivalent students (FLE) [7]	**8,239**	**3,324**	**-**	**-**	**-**	**11,563**
Academic program cost per student hour [8]	**$ 20**	**$ 13**	**$ -**	**$ -**	**$ -**	**$ 18**
Academic program cost per FLE student [9]	**$ 16,433**	**$ 10,011**	**$ -**	**$ -**	**$ -**	**$ 14,587**
Average student hours per FLE	**831**	**801**	**-**	**-**	**-**	**822**
For the year ended June 30, 2004 (in thousands)						
Revenue	$ 133,182	$ 34,981	$ 22,028	$ 3,967	$ (4,326)	$ 189,832
Direct cost [1]	53,543	21,214	17,056	3,224	(4,326)	90,711
Academic support [2]	17,216	5,391	-	-	-	22,607
Support services [3]	26,766	4,964	-	2,437	-	34,167
Institutional costs [4]	16,640	-	584	-	-	17,224
Interest expense	2,713	-	1,333	-	-	4,046
Amortization & loss on disposal	15,137	-	1,317	-	-	16,454
Total expenses	132,015	31,569	20,290	5,661	(4,326)	185,209
Net	$ 1,167	$ 3,412	$ 1,738	$ (1,694)	$ -	$ 4,623
Student hours (contact or equivalent) [6]	6,936,714	2,706,118	-	-	-	9,642,832
Full-load equivalent students (FLE) [7]	8,256	3,352	-	-	-	11,608
Academic program cost per student hour [8]	$ 19	$ 12	$ -	$ -	$ -	$ 17
Academic program cost per FLE student [9]	$ 15,870	$ 9,407	$ -	$ -	$ -	$ 14,004
Average student hours per FLE	840	807	-	-	-	831

Note 19 Segmented Information (continued)

(1) Direct cost represents direct department costs of delivering services. Direct costs include salaries, wages, contracts and benefits as well as non-personnel costs such as supplies and services and repairs and maintenance.

(2) Academic support includes all administration costs directly held in academic departments. Academic support includes salaries, wages, contracts and benefits as well as non-personnel costs such as supplies and services and repairs and maintenance for academic and academic support departments.

(3) Support services include operating expenses for departments supporting SAIT's operations. This item includes the following departments: Executive Offices, Finance, Facilities Management, Information Systems, Human Resources, Marketing & Communications, Alumni & Development, Corporate Training and Customer Services. Costs included within these departments include student registrations, student counseling, student health services, custodial services, security, cashiers, shipping and receiving, software and technical services. Support services costs have not been allocated to Earned Revenue, Commercial Services or Fund Development streams except for the following: the Corporate Training department is allocated completely to the Earned Revenue stream as well as specifically identified costs within other support departments comprising work groups or non personnel costs. In addition, Customer Services registration is allocated as a fixed percentage of salary and benefits. The Alumni & Development department is allocated completely to the Fund Development Stream.

(4) Institutional costs are related to the operations of the Institute as a whole rather than the operations of any particular department. These costs include but are not limited to investment fees, insurance premiums, bank charges, legal fees, worker's compensation premiums, facility renovation projects and utilities. Institutional costs have not been allocated to Earned Revenue or Fund Development.

(5) Fund development is an integral part of a post-secondary institution. Activities include not only unrestricted donations but project scholarship endowment and capital fundraising as well. Funds recognized in revenue in the current year do not reflect total funds raised and subsequently deferred for future years. Total funds raised in 2005 were $8,672,000 and $10,028,000 in 2004.

(6) Student hours (contact or equivalent) represent the number of classroom (including hours derived from courses taught by alternate delivery methods i.e. correspondence, teleconference and computer managed learning), laboratory or practicum hours assigned to each course multiplied by the number of students enrolled in each course. The number of students enrolled and the related student hours is obtained from the Institute's Student Information System.

(7) As defined by the Ministry of Advanced Education, one full-load equivalent (FLE) student reflects one student completing the full load for one year of study in a program, or several students combining to complete the equivalent of a normal full load. For programs where a year of study requires 24 to 36 weeks, an individual student taking a full load will earn one FLE. A student completing the requirements for a program less than 24 weeks will earn less than one FLE for a full year of study. Similarly, a student completing the requirements for a program greater than 36 weeks will earn more than one FLE for a full year of study. The FLE computation for a short program is based on a 32 week program of study. Apprenticeship Training Programs use 30 weeks as the standard length for FLE computations for one year of study in a program.

Programs are designed by the Institute - curriculum, program length and delivery mode.

The number of FLE students enrolled in credit courses during the year is calculated by:
(i) accumulating the student hours (contact or equivalent) of a student through an academic year,
(ii) dividing the accumulated student hours by the hours required to complete a year of study in a program, and
(iii) aggregating the numbers for all students.

In addition, non-credit course registrations are converted to FLE's in the same manner as credit courses.

(8) Academic program cost per student hour is calculated based on total expenses less specific cost recoveries, divided by the number of student hours. Cost recoveries in 2005 totaled $1,068,000 for Grant Funded Programs and $52,000 for Earned Revenue. Cost recoveries in 2004 totaled $991,000 for Grant Funded Programs and $38,000 for Earned Revenue.

(9) Academic program cost per FLE is calculated based on total expenses less specific cost recoveries, divided by the number of FLE's. Cost recoveries in 2005 totaled $1,068,000 for Grant Funded Programs and $52,000 for Earned Revenue. Cost recoveries in 2004 totaled $991,000 for Grant Funded Programs and $38,000 for Earned Revenue.

NOTE 20 EMPLOYMENT WITHIN ONE YEAR OF COMPLETION

	Surveyed...							
		Of Those Responding.....						
					Of Those Looking for Employment.....			
Employment Results for Students Who Completed a Certificate, Applied Degree or Diploma Program in 2004	Number of Students Who Completed a Program	Number of Survey Respondents	Number Not Seeking Employment	Number Seeking Employment	Full-time, Permanent Employment	Full-time Employment Annualized Salary Median	Contract, Part-time or Temporary Employment	Overall Employment Rate
Business and Tourism	690	604	159	445	369	$30,000	63	97%
Construction	225	209	22	187	174	$34,000	12	99%
Energy	329	290	24	266	215	$45,000	48	99%
Health and Public Safety	268	246	17	229	133	$33,000	94	99%
Information and Communications Technologies	627	565	77	488	324	$32,000	151	97%
Manufacturing and Automation	148	139	21	118	106	$36,000	10	98%
Transportation	173	165	12	153	129	$28,800	20	97%
Totals	2,460	2,218 90%	332 15%	1,886 85%	1,450 77%	$33,000	398 21%	98%
Prior year totals	2,433	2,193 90%	307 14%	1,886 86%	1,374 73%	$30,000	454 24%	97%

(Percentage totals may not add in this table because of rounding)

Note 20 Employment Within One Year of Completion (continued)

The employment survey does not include students who have completed the Certificate/Diploma Academic Upgrading Program, Apprenticeship Training Programs, EMT-A (Emergency Medical Technician – Ambulance), EMR (Emergency Medical Responder) or Earned Revenue Programs.

Employment information was collected from students (or their proxy) who had completed a program of study during the 2003-2004 academic year. In the current year, all students recorded as graduates as of January 4th, 2005 were surveyed.

Surveys were conducted by telephone between January and April 2005. In the prior year, the surveys were conducted by telephone between January 2004 and April 2004.

Employment is full-time if the student who completed a program indicated that their job was full-time (equal to or greater than 30 hours per week) at the time of the survey.

Contract, part-time, or temporary employment includes students who completed a program and were employed in a contract, part-time, or temporary position at the time of the survey, or had been for at least three months in such a position prior to the survey date, but were not employed at the date of the survey.

NOTE 21 CHANGES IN NON-CASH WORKING CAPITAL

(in thousands)		**2005**		2004
Accounts receivable	**$**	**408**	$	1,795
Inventories		**(141)**		(753)
Prepaid expenses		**22**		533
Accounts payable and accrued liabilities		**5,118**		1,644
Unearned revenue		**412**		777
Deferred salary plans		**58**		8
Deferred contributions		**(5,296)**		6,626
Accrued vacation pay		**531**		475
	$	**1,112**	$	11,105

NOTE 22 INTEREST IN PANGLOBAL TRAINING SYSTEMS LIMITED

PanGlobal Training Systems Limited is involved in the production and marketing of a Power Engineering multimedia learning product. The results of the company are proportionately consolidated in the financial statements as follows and represent the Institute's 33% (2004 - 33%) interest in the company:

(in thousands)		**2005**		2004
Total assets	**$**	**373**	$	322
Total liabilities	**$**	**185**	$	57
Revenue	**$**	**718**	$	743
Expense		**675**		478
Net income	**$**	**43**	$	265
Cash provided from operating activities	**$**	**215**	$	2
Cash provided from financing activities	**$**	**(124)**	$	(282)

NOTE 23 FUNDS HELD ON BEHALF OF OTHERS

The Institute has no equity in the following funds and administers them on behalf of others. Accordingly, these funds are not included in the consolidated financial statements:

(in thousands)		**2005**		2004
Alberta Online Learning	**$**	**1,681**	$	807
Alberta Consortium of Technical Institutes		**96**		121
Other		**77**		56
	$	**1,854**	$	984

NOTE 24 CONTRIBUTED MATERIALS AND SERVICES

The Institute received donated software to be used in the delivery of certain programs. The software modules used by the Institute have been included in these financial statements at their estimated fair market value of $2,800,000 (2004 - $2,750,000).

NOTE 25 COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Institute has entered into contracts for the provision of leased lands, natural gas, electricity, transit passes, caretaking services, and graphic services. Under these contracts, future minimum payments are:

(in thousands)	Services	Operating Leases
2005/06	$ 12,239	$ 130
2006/07	12,373	160
2007/08	8,651	233
2008/09	2,535	275
2009/10	447	284
Thereafter	-	12,592

(b) The Institute is defending a number of legal proceedings. Claims against the Institute in these proceedings have not been reflected in the financial statements. While the outcome of these proceedings cannot be predicted at this time, it is the opinion of management that the resolution of these claims will not have a material effect on the financial position of the Institute. The cost of settling these claims, if any, will be charged to operations upon settlement.

NOTE 26 COMPARATIVE FIGURES

Certain June 30, 2004 figures have been reclassified to conform to the current year presentation.

ATHABASCA UNIVERSITY

Financial Statements

For the year ended March 31, 2006

Auditor's Report

Financial Statements:

- Statement of Financial Position
- Statement of Operations
- Statement of Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

Auditor's Report

To The Athabasca University Governing Council

I have audited the statement of financial position of Athabasca University as at March 31, 2006 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 12, 2006, except as to Note 18, which is as of June 28, 2006

ATHABASCA UNIVERSITY

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2006

(thousands of dollars)

ASSETS

	2006	2005
Current assets		
Cash and short-term investments (Note 3)	$ 17,250	$ 19,194
Accounts receivable (Note 4)	4,127	3,202
Inventory of course materials	2,913	2,856
Prepaid expenses	855	810
	25,145	26,062
Non-current investments (Notes 3 and 5)	27,374	20,876
Deferred course development costs (Note 6)	282	370
Capital assets (Note 7)	21,565	20,092
	$ 74,366	$ 67,400

LIABILITIES AND NET ASSETS

	2006	2005
Current liabilities		
Accounts payable and accruals	$ 2,431	$ 4,005
Salaries and benefits payable (Note 8)	5,840	5,183
Deferred revenue	11,185	11,320
Deferred contributions (Note 9)	1,550	1,801
Current portion of obligation under capital lease (Note 10)	52	49
Current portion of deferred lease inducement (Note 11)	97	-
	21,155	22,358
Obligation under capital lease (Note 10)	-	52
Deferred salaries and benefits payable (Notes 8 and 19)	1,985	1,992
Deferred lease inducement (Note 11)	380	-
Unamortized deferred capital contributions (Note 12)	13,283	11,891
Unamortized course development contributions (Note 12)	282	370
	37,085	36,663
Net assets		
Investment in capital assets (Note 7)	8,230	8,100
Endowments (Note 14)	1,249	1,223
Internally restricted	25,880	19,461
Unrestricted	1,922	1,953
	37,281	30,737
	$ 74,366	$ 67,400

Approved on behalf of the Governing Council

David J. Burnett, CA
Chair

Dr. Frits Pannekoek
President

The accompanying notes are part of these financial statements.

ATHABASCA UNIVERSITY

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2006

(thousands of dollars)

	2006	2005
Revenue		
Province of Alberta grants (Note 17)	$ 30,113	$ 25,452
Undergraduate student fees	30,516	28,689
Graduate student fees	13,047	12,690
Sales of goods and services	10,040	9,598
Amortization of deferred capital contributions (Note 12)	1,909	913
Interest	1,326	888
Research and other grants	1,000	801
Donations (Note 18)	213	432
Other	96	82
Amortization of deferred course development contributions (Note 12)	88	18
	88,348	79,563
Expenses		
Salaries and benefits	50,893	45,191
Fees and purchased services	11,284	10,307
Materials and supplies	8,075	6,498
Communications and travel	5,538	4,812
Amortization of capital assets	3,877	2,755
Facilities rental	996	947
Insurance, utilities and taxes	672	596
Scholarships	407	167
Amortization of deferred course development costs (Note 6)	88	18
	81,830	71,291
Excess of revenue over expenses	$ 6,518	$ 8,272

The accompanying notes are part of these financial statements.

ATHABASCA UNIVERSITY

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31, 2006

(thousands of dollars)

	2005 Balance, beginning of year	Excess of revenue over expenses	Investment in capital assets, internally funded	Amortization of internally funded assets	Endowment contributions net of expenditures (Note 14)	Interfund transfers	2006 Balance, end of year
Internally Restricted							
Operating							
New program development	$ 5,244	-	-	-	-	1,491	$ 6,735
Future student awards	1,348	-	-	-	-	297	1,645
Future employee benefits	869	-	-	-	-	(869)	-
Bridging to retirement	-	-	-	-	-	3,900	3,900
	7,461	-	-	-	-	4,819	12,280
Capital							
Building renovations	2,000	-	-	-	-	1,600	3,600
Investment in systems development	10,000	-	-	-	-	-	10,000
	12,000	-	-	-	-	1,600	13,600
Internally restricted sub-total	19,461	-	-	-	-	6,419	25,880
Investment in capital assets	8,100	-	2,098	(1,968)	-	-	8,230
Endowments	1,223	-	-	-	26	-	1,249
Unrestricted	1,953	6,518	(2,098)	1,968	-	(6,419)	1,922
Total Net Assets	$ 30,737	$ 6,518	$ -	$ -	$ 26	$ -	$ 37,281

The accompanying notes are part of these financial statements.

ATHABASCA UNIVERSITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2006

(thousands of dollars)

	2006	2005
Cash provided from operating activities:		
Excess of revenue over expenses	$ 6,518	$ 8,272
Items not affecting cash flow:		
Amortization of capital assets	3,877	2,755
Transfer to deferred capital contributions (Note 9)	3,301	132
Amortization of deferred course development costs	88	18
Increase (decrease) in deferred salaries and benefits payable	(7)	246
Amortization of deferred course development contributions	(88)	(18)
Equity in joint venture earnings (Note 5)	(103)	(132)
Amortization of deferred lease inducement	(126)	-
Amortization of deferred capital contributions	(1,909)	(913)
	11,551	10,360
Change in non-cash working capital		
Change in current assets, except cash and short-term investments	(1,027)	279
Change in current liabilities, except current portions of obligation under capital lease and deferred lease inducement	(1,303)	3,143
	(2,330)	3,422
	9,221	13,782
Cash used in investing activities:		
Capital asset acquisitions, internally funded	(2,049)	(2,429)
Capital asset acquisitions, externally funded	(3,301)	(267)
Increase in non-current investments	(6,395)	(8,145)
	(11,745)	(10,841)
Cash provided from financing activities:		
Deferred lease inducement (Note 11)	603	-
Endowment contributions, net	26	118
Capital lease payments (Note 10)	(49)	(44)
	580	74
Increase (decrease) in cash and short-term investments	(1,944)	3,015
Cash and short-term investments, beginning of year	19,194	16,179
Cash and short-term investments, end of year	$ 17,250	$ 19,194

The accompanying notes are part of these financial statements.

Note 1 Authority and Purpose

Athabasca University (the "University") operates under the authority of the Post-Secondary Learning Act, Statutes of Alberta 2003, chapter P-19.5. It is directed by an appointed Governing Council and offers undergraduate and graduate degree programs through distance education. The University is a registered charity and is exempt from the payment of income taxes.

Note 2 Significant Accounting Policies and Reporting Practices

(a) General

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates which may vary from actual results. Such estimates, the potential errors in which are, in administration's opinion, within reasonable limits of materiality, have been made using professional judgment and conform to the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

(b) Revenue Recognition

Government operating grants are recognized as revenue in the period received, or, where the grants relate to a future period, are deferred and recognized in the subsequent period.

Revenue received for the provision of goods and services is recognized in the period in which the goods are provided or the services rendered. Deferred revenue includes course fees received in advance.

Contributions restricted for purposes other than endowment or the acquisition of capital assets are deferred and recognized as revenue in the year that the conditions of the contributions are met. Contributions restricted for the acquisition of capital assets having limited life are initially recorded as deferred capital contributions in the period in which they are received. Deferred capital contributions are transferred to unamortized deferred capital contributions when expended and are amortized to revenue over the useful lives of the related assets. Contributions restricted for the acquisition of non-consumable capital assets (e.g., land) are initially recorded as deferred contributions in the period in which they are received and, when expended, are recognized as direct increases in net assets.

Contributions restricted for the development of courses are deferred and amortized to revenue over five years.

Endowed donations, including investment earnings, are recognized as direct increases in net assets in the period in which they are received. The portion of investment earnings, which, in accordance with agreements with benefactors or the authority provided by Section 76(2)(c) of the Post-Secondary Learning Act, is used to fund scholarships is transferred to investment income.

Donations of goods and services that otherwise would have been purchased are recorded at fair value when a fair value can be reasonably determined; otherwise, they are recorded at nominal value.

Volunteers contribute services to assist the University in carrying out its mission. Such contributed services are not recognized in these financial statements.

(c) Fair Value of Financial Instruments and Short Term Investments

The carrying values of financial assets and financial liabilities are considered to approximate fair value unless otherwise disclosed. Short-term investments include commercial paper, bonds, and term deposits that mature within one year.

(d) Investments

Current investments are valued at the lower of cost and market value. Non current investments are valued at cost or, when there has been other than a temporary impairment in the value of the investment, at market value, which is considered the new cost. Gains or losses on sales of investments are recognized in the year of disposal. The investment in a joint venture is accounted for using the equity method.

(e) Inventory of Course Materials

Inventory of course materials is valued at the lower of cost and net realizable value.

(f) Copyrights

The University obtains copyrights on all course materials produced. These copyrights are recorded at a nominal value of one dollar and are included in prepaid expenses.

(g) Deferred Course Development Costs

Costs for the development of special purpose courses sponsored through Curriculum Redevelopment Funding are deferred and amortized over five years from the time development is completed.

(h) Capital Assets

Capital asset acquisitions are recorded at cost, except for donated assets, which are recorded at fair value. Except for works of art [1], capital assets are amortized on a straight-line basis over the estimated useful lives of the assets, as follows:

	Years
Buildings	40
Site improvements	10 - 25
Computing equipment and software	3 - 5
Vehicles, furnishings and other equipment	5 - 10
Leasehold improvements	lesser of 5 years or lease term
Library materials	10

[1] Works of art purchased by the University are recorded at cost and donated works of art are recorded at fair value. All works of art are not amortized. Works of art include sketches, limited edition prints, photographs, sculptures, rare books, and original paintings. The works of art are held by the University for public exhibition.

(i) Employee Future Benefits

The University participates with other employers in two defined benefit pension plans, the Universities Academic Pension Plan and the Public Service Pension Plan. These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on contribution rates that are expected to provide for benefits payable under the respective pension plan. The University does not record its portion of the pension plans' deficits or surpluses.

The University's other defined benefit plans consist of an Administrative Leave Plan and a Flexible Benefit Plan. The cost of benefits earned by employees in these plans is actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation. Net actuarial gains (losses) are recognized immediately.

(j) Deferred Lease Inducement

One of the University's operating leases for premises provides for a lease inducement. This inducement has been deferred and is being recorded as a reduction of rent expense over the term of the lease.

(k) Internally Restricted Net Assets

The University has designated internally restricted net assets for future operating and capital needs. These amounts are not available for other purposes without the approval of Governing Council.

Note 3 Cash and Investments

Cash and investments consist of bank account balances, money market investments and other investments, as follows:

	2006				2005	
	Current Cash and Short-term Investments	Non-current Investments(4)	Total		Total	
			Carrying value	Market	Carrying value	Market
Monetary investments(1)						
Bank balances	$ 5,160	$ -	$ 5,160	$ 5,160	$ 7,296	$ 7,296
Money market investments(2)	12,090	27,058	39,148	39,148	32,483	32,483
	17,250	27,058	44,308	44,308	39,779	39,779
Other investments(3)	-	316	316	316	291	291
Total	$ 17,250	$ 27,374	$ 44,624	$ 44,624	$ 40,070	$ 40,070
Total 2005	$ 19,194	$ 20,876	$ 40,070	$ 40,070		

(1) The carrying value of monetary investments is a close approximation of market value.

(2) Money market investments are purchased at a discount and are rated at R-1 or better (rated by Dominion Bond Rating Service). At March 31, 2006, the investments held have an average effective yield of 3.76% (2005 - 2.598%) and mature within 90 days.

(3) Other investments are recorded at the lower of carrying value and estimated market value and include the shares of two private companies and a joint venture interest (Note 5).

(4) Non-current money market investments include endowments of $1,249 (2005 - $1,223), which must be held for perpetuity, amounts held for deferred salaries and benefits payable of $1,985 (2005 - $1,992), and certain internally restricted net assets totaling $23,824 (2005 - $17,370).

Note 4 Accounts Receivable

Accounts receivable include $1,626 (2005 - $406) in grants due from the Province of Alberta and $553 (2005 - $138) in recoverable expenses and equity distribution from Campus Alberta Applied Psychology: Counselling Initiative joint venture.

Note 5 Interest in Joint Venture

The University has a one-third joint venture interest in the Campus Alberta Applied Psychology: Counselling Initiative. Three Alberta universities have formed the joint venture to develop and deliver this collaborative graduate degree.

The University's share of the joint venture's assets, liabilities and equity is:

		2006		2005
Current assets		$ 581		$ 458
Capital assets		3		3
		$ 584		$ 461
Current liabilities		$ 265		$ 167
Unamortized deferred capital contributions		1		3
Investment in capital assets		2		-
		268		170
Joint venture interest				
Opening balance		291		217
Net distribution		(80)		(58)
Excess of revenues over expenses				
Revenues	$ 675		$ 598	
Expenses	570	105	466	132
		316		291
		$ 584		$ 461

Note 6 Deferred Course Development Costs

	2006	2005
Balance, beginning of year	$ 370	$ 318
Costs incurred during the year	-	70
	370	388
Amount amortized during the year	(88)	(18)
Balance, end of year	$ 282	$ 370

Note 7 Capital Assets and Investment in Capital Assets

	2006			2005[2]		
	Cost[1]	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 1,565	$ -	$ 1,565	$ 1,565	$ -	$ 1,565
Buildings and site improvements	25,747	14,372	11,375	25,369	13,635	11,734
Leasehold improvements	2,128	1,172	956	1,401	955	446
Furnishings, equipment and software (Note 10)	22,095	15,600	6,495	19,090	13,955	5,135
Library materials	5,074	4,520	554	5,069	4,477	592
Works of art	620	-	620	620	-	620
	$ 57,229	$ 35,664	21,565	$ 53,114	$ 33,022	20,092
Unamortized deferred capital contributions related to capital assets (Note 12)			(13,283)			(11,891)
Obligation under capital lease (Note 10)			(52)			(101)
Investment in capital assets			$ 8,230			$ 8,100

[1] Capital acquisitions during the year include an in-kind donation of software in the amount of $3,100 (2005 - $0) (Note 18). This software includes licensed rights for non-operational use of a comprehensive business process application, and access to a series of training modules, all for educational purposes.

[2] Some prior year amounts have been reclassified to conform to the current year presentation.

Note 8 Salaries and Benefits Payable

	2006	2005
Administrative Leave Plan	$ 1,480	$ 1,310
Flexible Benefit Plan	1,083	1,011
	2,563	2,321
Other defined benefit plans (Note 19)	2,217	2,168
Salaries and wages	1,588	1,497
Vacation pay	1,457	1,189
Professional development funds		
Total salaries and benefits payable	7,825	7,175
Current portion of salaries and benefits payable	(5,840)	(5,183)
Deferred salaries and benefits payable	$ 1,985	$ 1,992

Deferred salaries and benefits payable are the long-term accrued benefit obligations of the Administrative Leave Plan and Flexible Benefit Plan.

Note 9 Deferred Contributions

Deferred contributions represent unspent restricted grants and donations. Changes in the deferred contributions balances are as follows:

	2006	2005
Balance, beginning of year	$ 1,801	$ 2,431
Grants received	2,296	1,420
Donations received subject to external restrictions (Note 18)	3,119	-
Transfer to deferred capital contributions (Note 13)	(3,301)	(132)
Transfer to unamortized deferred course development contributions (Note 12)	-	(70)
Amount recognized as revenue	(2,365)	(1,848)
Balance, end of year	$ 1,550	$ 1,801
The balance consists of funds restricted from:		
Province of Alberta		
Access	$ 292	$ 906
Learning Enhancement	-	21
Centennial Rebate	110	-
Facilities Planning	152	-
Intellectual Infrastructure	-	13
Infrastructure Maintenance	47	4
Innovation and Science	130	211
Health and Wellness	30	40
Sponsored research special projects	789	606
	$ 1,550	$ 1,801

Note 10 Obligation Under Capital Lease

The University leases certain equipment under agreements, which are classified as capital leases. Costs and accumulated amortization of such assets totaled $1,210 and $870 respectively (2005 - $1,210 and $718) and are included in furnishings, equipment and software (Note 7).

Future minimum capital lease payments are as follows:

	2006	2005
2006	$ -	$ 54
2007	53	53
Total future minimum lease payments	53	107
Less amount representing implicit interest at 8%	(4)	(12)
Net future minimum lease payments	49	95
Plus accrued interest	3	6
Total capital lease payable	52	101
Less current portion and accrued interest	(52)	(49)
Long term obligation under capital lease	$ -	$ 52

Note 11 Deferred Lease Inducement

During the year the University received a lease inducement under an agreement for leased premises. The inducement has been deferred and is being applied as a reduction of rent expense over the term of the lease as follows:

2007	$ 97
2008	117
2009	117
2010	117
2011	29
Total unamortized deferred lease inducement	477
Less: current portion	(97)
Long term portion of deferred lease inducement	$ 380

Note 12 Unamortized Deferred Capital and Deferred Course Development Contributions

	2006			2005
	Related to			
	Capital Assets	Deferred Course Development	Total	Total
Balance, beginning of year	$ 11,891	$ 370	$ 12,261	$ 12,855
Transfer from				
Deferred capital contributions (Note 13)	3,301	-	3,301	267
Deferred contributions (Note 9)	-	-	-	70
	15,192	370	15,562	13,192
Amortized to revenue	(1,909)	(88)	(1,997)	(931)
Balance, end of year	$ 13,283	$ 282	$ 13,565	$ 12,261

Note 13 Deferred Capital Contributions

Deferred capital contributions represent capital funding received from external sources that remain unspent at March 31. Changes in the deferred capital contributions balances are as follows:

	2006	2005
Balance, beginning of year	$ -	$ 135
Transfer from deferred contributions (Note 9)		
Donation in-kind	3,100	-
Cash	201	132
	3,301	132
Transfers to unamortized deferred capital contributions (Note 12)	(3,301)	(267)
Balance, end of year	$ -	$ -

Note 14 Endowments

Endowments consist of externally restricted donations, the principal of which is required to be maintained intact. The use of the investment income is internally restricted as endowments must first be adjusted annually for inflation.

	2006				2005
	Capital Contributions	Capitalized Earnings	Increase (Decrease) In Expendable Earnings	Total	Total
Endowments, beginning of year	$ 1,189	$ 15	$ 19	$ 1,223	$ 1,089
Donations received (Note 18)	-	-	-	-	100
Transfer from internally restricted net assets	-	-	-	-	16
Investment earnings	-	25	10	35	25
Scholarships funded and administrative fees	-	-	(9)	(9)	(7)
Endowments, end of year	$ 1,189	$ 40	$ 20	$ 1,249	$ 1,223

Note 15 Budget

The budget, as approved by the Governing Council on March 23, 2005, is presented together with actual revenue and expenses for the year.

	Actual	Budget
Revenue		
Province of Alberta grants	$ 30,113	$ 26,037
Undergraduate student fees	30,516	29,991
Graduate student fees	13,047	12,656
Sales of goods and services	10,040	9,332
Amortization of deferred capital and deferred course development contributions	1,997	832
Interest	1,326	790
Other	1,309	2,226
	88,348	81,864
Expenses		
Salaries and benefits	50,893	55,044
Fees and purchased services	11,284	10,759
Materials and supplies	8,075	8,284
Communications and travel	5,538	4,733
Amortization of capital assets and deferred course development costs	3,965	3,203
Facilities rental, insurance, utilities and taxes	1,668	1,646
Scholarships	407	287
	81,830	83,956
Revenue over (under) expenses	$ 6,518	$ (2,092)

Note 16 Operating Lease Commitments

The University is committed to operating leases expiring no later than 2012 for facilities and equipment, with the following minimum annual payments:

2007	$ 926
2008	$ 577
2009	$ 312
2010	$ 315
2011	$ 137
2012	$ 10

The University is also required to pay a pro rata share of operating expenditures of the facilities.

Note 17 Related Party Transactions

The University operates under the authority and statutes of the Province of Alberta. Transactions between the University and the Province of Alberta are summarized below.

	2006	2005
Operating grant	$ 22,366	$ 20,425
Access funding	4,551	3,728
Infrastructure	142	150
Other	1,454	353
Total contributions	28,513	24,656
Change in deferred contributions and other accruals from Provincial sources	1,600	796
Province of Alberta grants revenue	$ 30,113	$ 25,452

The University offered certain courses at provincial post-secondary institutions. The revenue for these courses amounted to $1,553 (2005 - $1,564).

Note 18 Donations

Donations were received during the year as follows:

	2006			2005
	Cash	In-kind(2)	Total	Total
Amount recognized as revenue	$ 138	$ 75	$ 213	$ 432
Transfers to deferred contributions (Note 9)	19	3,100	3,119	-
Transfer to endowments (Note 14)	-	-	-	100
Total donations received(1)	$ 157	$ 3,175	$ 3,332	$ 532

(1) In addition, the University received a $100 matching grant from the Province of Alberta which is not recorded as a donation but as a grant.

(2) Includes in-kind donations of $3,100 for capital software (Note 7) and $75 for professional services.

Note 19 Employee Future Benefits

The University participates in the Universities Academic Pension Plan and the Public Service Pension Plan, which are multi-employer plans. Employer contributions of $2,925 (2005 - $2,392) for the year are expensed in these financial statements.

Effective January 1, 2005, the Universities Academic Pension Plan contribution rates for employees are 8.675% (employer 9.675%) of earnings up to the year's maximum pensionable earnings (YMPE) under the Canada Pension Plan and 11.075% (employer 12.075%) of earnings above YMPE.

At December 31, 2005, the Universities Academic Pension Plan reported an actuarial deficiency of $537,415 (2004 - $643,979). This deficiency is being funded by contributions from employees and employers. In addition the Province of Alberta is contributing 1.25% (2004 – 1.25%) of pensionable salary toward the actuarial deficiency for pre-1992 service in accordance with the funding plan adopted in 1992. At December 31, 2005 the University's participating employees comprised 4.7% of the total active membership.

Since September 1, 2004, the Public Service Pension Plan contribution rates for each of employees and employers are 6.17% of earnings up to the YMPE and 8.81% of earnings above YMPE. While contribution rates have remained unchanged for two years, management expects rate increases in 2006.

At December 31, 2005, the Public Service Pension Plan reported an actuarial deficiency of $187,704 (2004 - $450,068). This deficiency is being funded by contributions from employees and employers. The portion of the actuarial deficiency for pre-2003 service is to be eliminated by December 31, 2017. At December 31, 2005 the University's participating employees comprised 0.6% of the total active membership.

The University's other defined benefit plans, consisting of an Administrative Leave Plan and a Flexible Benefit Plan, have no plan assets. The University has provided for these plans by accruing a benefit obligation of $2,563 (2005 - $2,321) in salaries and benefits payable (Note 8).

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligations for the other defined benefit plans are as follows:

	2006	2005
Discount rate and rate of return		
Administrative Leave Plan	4.5%	3.5%
Flexible Benefit Plan	4.75%	5.25%
Rate of compensation increase		
First year	6%	6%
Subsequent years	6%	6%
Average remaining service period of active employees		
Administrative Leave Plan	7 years	3 years
Flexible Benefit Plan	13 years	12 years
Retirement age	60 years	60 years

During the year, the University paid benefits from its other defined benefit plans totaling $243 (2005 - $313). Employee future benefit costs recognized in the year are $816 (2005 - $644).

Note 20 Salary and Benefits Disclosure

	2006					2005	
	Base Salary(1)	Cash Benefits(2)	Non-cash Benefits(3)	Totals	Number of Individuals	Totals	Number of Individuals
Governing Council							
Chair of Governing Council	$ -	$ -	$ -	$ -	1	$ -	1
Governing Council members	-	-	-	-	15	-	16
Executive Officers							
President	259	-	47	306	1	265	1
Vice-Presidents							
Academic	161	-	27	188	1	181	1
Finance & Administration	175	-	27	202	1	181	1
Executive Director							
External Relations	109	-	24	133	1	161	1
Chief Information Officer	130	-	26	156	1	138	1
Associate Vice-Presidents							
Academic	117	-	25	142	1	140	1
Research	136	-	27	163	1	155	1
Increase in Administrative Leave Plan accruals(4)							
President				40		39	
Vice Presidents							
Academic				40		1	
Finance & Administration				37		42	
Executive Director							
External Relations				19		22	
Chief Information Officer				28		21	
Associate Vice-Presidents							
Academic				26		15	
Research				-		-	

(1) Base salary is pensionable and includes pay for vacation time taken.

(2) Cash benefits include lump sum payments and any other direct cash remuneration that are non-pensionable.

(3) Non-cash benefits include the employer's share of all employee benefits and contribution payments made on behalf of employees for pension, health care, dental, vision, group life insurance, accidental death and dismemberment insurance, and long and short-term disability plans. In addition, non-cash benefits include tuition and travel insurance paid on behalf of employees.

(4) Administrative Leave Plan accrual amounts include the current service cost, the related net actuarial gains or losses, and adjustments for past service accrued at current salary rates.

UNIVERSITY OF ALBERTA
Financial Statements

For the year ended March 31, 2006

Auditor's Report

Financial Statements:

- Statement of Financial Position
- Statement of Operations and Change in Unrestricted Net Assets
- Statement of Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of the University of Alberta

I have audited the statement of financial position of the University of Alberta as at March 31, 2006 and the statements of operations and change in unrestricted net assets, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 26, 2006

STATEMENT OF FINANCIAL POSITION

UNIVERSITY OF ALBERTA

AT MARCH 31, 2006
(in thousands of dollars)

	2006	2005
ASSETS		
Current		
Cash and cash equivalents (Note 3)	$ 165,142	$ 170,766
Short-term investments (Note 3)	17,722	27,532
Accounts receivable	129,136	99,808
Inventories and prepaid expenses	11,993	12,985
	323,993	311,091
Investments (Note 3)	810,462	751,467
Capital assets and collections (Note 5)	1,394,649	1,235,368
	$ 2,529,104	$ 2,297,926
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	$ 114,223	$ 101,554
Current portion of employee benefit liabilities (Note 6)	37,839	35,200
Current portion of long-term obligations (Note 8)	5,574	6,034
Deferred contributions, research and other (Note 9)	179,128	199,070
Deferred revenue	15,995	18,317
	352,759	360,175
Employee benefit liabilities (Note 6)	44,248	47,568
Long-term obligations (Note 8)	121,837	121,661
Deferred contributions, research and other (Note 9)	90,000	90,000
Deferred contributions, capital (Note 9)	3,348	1,931
Unamortized deferred capital contributions (Note 10)	868,281	745,321
	1,480,473	1,366,656
Net Assets		
Endowments (Note 11)	640,143	556,844
Investment in capital assets and collections (Note 12)	404,591	365,460
Unrestricted	3,897	8,966
	1,048,631	931,270
	$ 2,529,104	$ 2,297,926

Signed on behalf of the Board of Governors

Chairman of the Board

President

---------- The accompanying notes are part of these financial statements. ----------

STATEMENT OF OPERATIONS AND CHANGE IN UNRESTRICTED NET ASSETS

UNIVERSITY OF ALBERTA

FOR THE YEAR ENDED MARCH 31, 2006
(in thousands of dollars)

	2006	2005
REVENUE		
Provincial government (Note 17)	$ 518,279	$ 474,400
Federal and other government	138,783	113,183
Credit course tuition and related fees	181,798	163,423
Sales of services and products	171,321	160,493
Grants and donations	60,059	38,012
Investment income (Note 4)	52,763	41,550
	1,123,003	991,061
Amortization of deferred capital contributions (Note 10)	58,778	62,559
	1,181,781	1,053,620
EXPENSE		
Salaries	566,489	528,279
Employee benefits	98,165	87,190
Materials, supplies and services	220,873	181,105
Utilities and maintenance	76,213	60,778
Interest	7,182	6,821
Scholarships and bursaries	67,588	63,190
Amortization of capital assets	87,952	88,815
	1,124,462	1,016,178
EXCESS OF REVENUE OVER EXPENSE	57,319	37,442
TRANSFER TO ENDOWMENTS (Note 11)	(24,634)	-
NET INVESTMENT IN CAPITAL ASSETS (Note 12)	(37,754)	(24,506)
Change in unrestricted net assets for the year	(5,069)	12,936
UNRESTRICTED NET ASSETS (DEFICIT), BEGINNING OF YEAR	8,966	(3,970)
UNRESTRICTED NET ASSETS, END OF YEAR	$ 3,897	$ 8,966

--------- *The accompanying notes are part of these financial statements.* ----------

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31, 2006
(in thousands of dollars)

	Endowments			Investment in Capital Assets and Collections	Unrestricted Net Assets (Deficit)
	Externally Restricted	Internally Restricted	Total		
NET ASSETS, March 31, 2004	$ 495,456	$ 43,052	$ 538,508	$ 316,440	$ (3,970)
Excess of revenue over expense	-	-	-	-	37,442
Investment income (Note 4)	90	-	90	-	-
Gifts of endowment principal	18,246	-	18,246	-	-
Net investment in capital assets (Note 12)	-	-	-	24,506	(24,506)
Contributions of assets not subject to amortization (Note 12)	-	-	-	24,514	-
NET ASSETS, March 31, 2005	$ 513,792	$ 43,052	$ 556,844	$ 365,460	$ 8,966
Excess of revenue over expense	-	-	-	-	57,319
Investment income (Note 4)	34,954	-	34,954	-	-
Gifts of endowment principal	23,711	-	23,711	-	-
Transfers (Note 11)	-	24,634	24,634	-	(24,634)
Net investment in capital assets (Note 12)	-	-	-	37,754	(37,754)
Contributions of assets not subject to amortization (Note 12)	-	-	-	1,377	-
NET ASSETS, March 31, 2006	$ 572,457	$ 67,686	$ 640,143	$ 404,591	$ 3,897

----------*The accompanying notes are part of these financial statements*----------

STATEMENT OF CASH FLOWS **UNIVERSITY OF ALBERTA**

FOR THE YEAR ENDED MARCH 31, 2006
(in thousands of dollars)

	2006	2005
CASH PROVIDED FROM (USED IN) OPERATING ACTIVITIES		
Excess of revenue over expense	$ 57,319	$ 37,442
Add (deduct) non-cash items:		
Amortization of capital assets	87,952	88,815
Amortization of deferred capital contributions	(58,778)	(62,559)
Loss on disposal of capital assets	2,245	2,006
Employee benefit liabilities	(681)	(4,628)
Unrealized (gain) loss on investments	(9,979)	1,145
Total non-cash items	20,759	24,779
Net change in non-cash working capital (*)	(28,121)	13,282
	49,957	75,503
CASH PROVIDED FROM (USED IN) INVESTING ACTIVITIES		
Acquisition of capital assets and collections	(249,540)	(252,353)
Purchases of investments, net	(17,111)	(6,059)
Endowment investment earnings in excess of the spending allocation	3,051	(1,132)
Proceeds on disposal of capital assets	61	173
	(263,539)	(259,371)
CASH PROVIDED FROM (USED IN) FINANCING ACTIVITIES		
Endowment contributions	23,711	18,246
Capital contributions	183,154	141,339
Contributions restricted for non-amortizable capital assets and collections	1,377	24,514
Long-term obligations - new financing	6,135	41,329
Long-term obligations - repayments	(6,419)	(9,679)
	207,958	215,749
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,624)	31,881
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	170,766	138,885
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 165,142	$ 170,766

(*) **Net change in non-cash working capital:**

	2006	2005
(Increase) decrease in short-term investments	$ 9,810	$ (27,532)
(Increase) in accounts receivable	(29,328)	(16,326)
(Increase) decrease in inventories and prepaid expenses	992	(307)
Increase in accounts payable	12,669	19,359
Increase (decrease) in deferred contributions research and other	(19,942)	29,474
Increase (decrease) in deferred revenue	(2,322)	8,614
	$ (28,121)	$ 13,282

----------The accompanying notes are part of these statements---------

1. Authority and purpose

The University of Alberta operates under the *Post-Secondary Learning Act* of the Province of Alberta to provide post-secondary and graduate education and to engage in research and public service. The University is a registered charity, and under section 149 of the *Income Tax Act* of Canada, is exempt from the payment of income tax.

2. Significant accounting policies

a) General - GAAP and use of estimates

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, known as GAAP. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results. Such estimates have been made using judgments determined by the University's administration. In administration's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

b) Interest in joint ventures

The financial statements use the proportionate consolidation method to record the University's proportionate share of each financial statement component of these three joint ventures:

- Tri-University Meson Facility (TRIUMF) (16.7% interest) - a joint venture with five other universities to operate a sub-atomic physics research facility.
- Northern Alberta Clinical Trials and Research Centre (50% interest) - a joint venture with Capital Health to support the shared missions of Capital Health and the University for collaborative clinical research.
- TEC Edmonton (50% interest) – a joint venture with Edmonton Economic Development Corporation to stimulate entrepreneurialism, advance corporate development and accelerate commercialization of new ideas and technologies that benefit society.

These joint ventures are not material to the University's financial statements, and therefore, separate condensed financial information is not presented.

c) Investments, cash and cash equivalents

Cash and cash equivalents are comprised primarily of cash on deposit and certificates of deposit, guaranteed investment certificates, government treasury bills and commercial paper with a maximum maturity of 90 days.

Short-term investments are comprised primarily of certificates of deposit, guaranteed investment certificates, government treasury bills and commercial paper with a maturity between 90 days and one year. These investments are recorded at the lower of cost or fair value. Fair value generally approximates cost given the short term to maturity and high credit quality of the underlying investments.

Long-term investments are recorded at fair value, except for common shares subject to restrictions and real estate. Fair value for marketable securities is determined based on quoted market values for publicly traded bonds and equities, and a market based net asset unit value for pooled bond and equity funds. Fair value for mortgages is calculated as the present value of future expected payments using a discount rate for similar financial instruments of comparable risk and duration. Changes in fair values from one period to the next are included in investment income.

Common shares subject to restrictions on their disposition and real estate are recorded at cost. When a loss in value of such investments occurs that is other than temporary, the investment is written down to recognize the loss.

d) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at cost.

e) Capital assets and collections

Capital assets purchased are recorded at cost. In-kind contributions are recorded at fair value when a fair value can be reasonably determined. Permanent collections are not amortized and include the portion of library assets with permanent value, museum specimens, archival materials, maps and works of art.

Capital assets, once placed into service, are amortized on a straight-line basis over the assets' estimated useful lives. The estimated useful lives are as follows:

Buildings and utilities	10 - 40 years	Library materials	10 years
Equipment and furnishings	3 - 25 years	Library research materials	40 years

f) Asset retirement obligations

Asset retirement obligations are recorded when they are incurred if a reasonable estimate of fair value can be determined. The associated retirement costs are capitalized as part of the carrying amount of the asset. The liability is increased using long term government bond yields over the estimated time period until the obligation is settled. The capitalized retirement costs are amortized over the remaining useful life of the related asset.

g) Revenue recognition

The financial statements record the following items as revenue - at the following times:

- Unrestricted contributions - when received, or receivable, if the amount can be reasonably estimated and collection is reasonably assured.
- Unrestricted investment income - when earned; this includes interest, dividends, realized and unrealized gains and losses.
- Pledges - are recognized when collected.
- Revenues received for services and products - when the services or products are provided.
- Tuition fees - when the instruction is delivered.
- Restricted contributions - based on the deferral method.

Restricted contributions – deferral method

Contributions, including investment income on the contributions, that are restricted for purposes other than endowment or capital asset acquisitions, are deferred and recognized as revenue when the conditions of the contribution are met.

Contributions to acquire capital assets with limited life are first recorded as deferred contributions when received, and when expended, they are transferred to unamortized deferred capital contributions and amortized to revenue over the useful lives of the related assets.

Endowment contributions are recognized as direct increases in endowment net assets. Investment earnings, under agreements with benefactors or the *Post-Secondary Learning Act* allocated to endowment principal, are also recognized as direct increases in endowment net assets. Endowment investment earnings that are allocated for spending are deferred and recognized as revenue when the conditions of the endowment are met.

Contributions restricted to the acquisition of land and permanent collections are first recorded as deferred contributions when received, and when expended, they are recognized as direct increases in investment in capital assets and collections.

h) Foreign currency translation

Financial assets and liabilities recorded in foreign currencies are translated to Canadian dollars at the year-end exchange rate. Revenues and expenses are translated at average weekly exchange rates. Gains or losses from these translations are included in investment income.

i) Employee future benefits

Pensions

The University participates with other employers in the Universities Academic Pension Plan and the Public Service Pension Plan. These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees based on years of service and earnings. Pension expense included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates that are expected to provide for benefits payable under the respective pension plan.

Long-term disability plans

The cost of providing non-vesting and non-accumulating employee future benefits for compensated absences under the University's long-term disability plans is charged to expense in full when the event occurs which obligates the University to provide the benefits. The cost of these benefits is actuarially determined using the accumulated benefit method, a market interest rate and administration's best estimate of the retirement ages of employees, expected health care costs and the period of employee disability. Actuarial gains or losses on the accrued benefit obligation are amortized over the average expected period the benefits will be paid.

Early retirement plans

The cost of providing accumulating post employment benefits under the University's early retirement plans is charged to expense over the period of service provided by the employee. The cost of these benefits is actuarially determined using the projected benefit method pro rated on services, a market interest rate and administration's best estimate of expected health care, dental care, life insurance costs and the period of benefit coverage. The excess of net actuarial gains or losses over 10% of the benefit obligation is amortized over the average remaining service period of active employees expected to receive benefits under the plans.

j) Contributed services

Volunteers as well as members of the staff of the University contribute an indeterminable number of hours per year to assist the institution in carrying out its mission. Such contributed services are not recognized in the financial statements.

k) Fair value of financial instruments

The carrying values of financial assets and financial liabilities approximate fair value unless otherwise disclosed.

The University uses forward exchange contracts to manage its foreign exchange currency exposure on certain long-term investments. However, the University does not use forward exchange contracts or any other type of derivative financial instruments for trading or speculative purposes. These contracts do not qualify for hedge accounting treatment and as such are marked-to-market at the end of each reporting period, resulting in a gain or loss on the statement of operations.

3. Investments, cash and cash equivalents

Cash and cash equivalents and short-term investments are invested in highly secure Canadian money market instruments.

The long-term investment portfolio includes endowment assets as well as the portion of non-endowment assets that will not be required for spending in the next five years. The primary objective of this portfolio is a rate of return that, in real terms, exceeds the endowment spending allocation at an acceptable risk level.

The carrying values of investments are as follows:

	2006	2005
Cash, money market funds, short-term notes and treasury bills	$ 187,461	$ 202,112
Canadian government and corporate bonds	269,892	270,672
Canadian equities	113,400	106,516
Foreign equities	396,823	345,308
Pooled hedge funds	21,142	20,074
Canadian common shares subject to restrictions	3,521	3,994
Annuities	101	103
Real estate	986	986
	993,326	949,765
Less amounts reported as:		
Cash and cash equivalents	165,142	170,766
Short-term investments	17,722	27,532
Total	$ 810,462	$ 751,467

Common shares subject to restrictions and real estate are recorded at cost, and have a fair value of $30,244 (2005 - $28,304). All other investments are carried at their fair value.

Investments consist of endowment funds (fair value of $638,476 (2005 - $554,959)) and non-endowment funds (fair value of $380,587 (2005 - $418,130)).

As at March 31, 2006, the average effective yields and the terms to maturity are as follows:

- Money market funds, short-term notes and treasury bills: 3.84% (2005 - 2.53%); term to maturity: less than one year.
- Government and corporate bond funds: 4.77% (2005 – 3.99 %) terms to maturity: range from less than one year to more than 10 years.

4. Investment income

	2006	2005
Income on investments held for endowment:		
Externally restricted	$ 66,797	$ 27,854
Internally restricted	8,122	3,475
	74,919	31,329
Income on other investments	19,534	13,007
Total investment income	94,453	44,336
Amounts deferred	(6,736)	(2,696)
Income capitalized to endowment principal (Note 11)	(34,954)	(90)
Total investment income recognized as revenue	$ 52,763	$ 41,550

5. Capital assets and collections

	2006			2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Buildings and utilities	$ 1,510,291	$ 589,173	$ 921,118	$ 1,333,327	$ 558,817	$ 774,510
Equipment and furnishings	739,747	466,728	273,019	702,807	433,732	269,075
Library materials	122,509	90,317	32,192	122,233	83,686	38,547
Library research materials	85,124	19,628	65,496	70,278	17,500	52,778
Capital assets subject to amortization	2,457,671	1,165,846	1,291,825	2,228,645	1,093,735	1,134,910
Land	11,353	-	11,353	11,353	-	11,353
	2,469,024	$ 1,165,846	1,303,178	2,239,998	$ 1,093,735	1,146,263
Library permanent collections	34,401		34,401	33,072		33,072
Other permanent collections	57,070		57,070	56,033		56,033
Capital assets and collections	$ 2,560,495		$ 1,394,649	$ 2,329,103		$ 1,235,368

Included in buildings and utilities is $230,156 (2005 - $110,223) recorded as construction in progress, which is not amortized as the assets are not yet available for use.

Acquisitions during the year included in-kind contributions (such as library materials and equipment) in the amount of $7,940 (2005 - $31,897).

6. Employee benefit liabilities

	Academic staff	Support staff	Total 2006	Total 2005
Vacation pay	$ 13,800	$ 16,450	$ 30,250	$ 28,574
Long-term disability plans	9,998	21,781	31,779	35,075
Early retirement plans	2,552	17,506	20,058	19,119
	26,350	55,737	82,087	82,768
Less current portion	17,338	20,501	37,839	35,200
	$ 9,012	$ 35,236	$ 44,248	$ 47,568

7. Pension benefit plans, long-term disability and early retirement plans

a) Pension benefit plans

The University participates with other employers in the Universities Academic Pension Plan (UAPP) and the Public Service Pension Plan (PSPP). These pension plans are multi-employer defined benefit plans that provide pensions for the University's participating employees based on years of service and earnings. The pension expense recorded in these financial statements is equivalent to the University's actuarially determined contributions of $36,391 (UAPP - $25,308; PSPP - $11,083) for the year ended March 31, 2006 (2005 - $32,156 (UAPP - $21,356; PSPP - $10,800)).

The UAPP is a contributory defined benefit pension plan for academic staff members. At December 31, 2005, the UAPP reported an actuarial deficiency of $537,415 (2004 - $643,979) consisting of a pre-1992 deficiency ($460,286) and a post-1991 deficiency ($77,129). An actuarial valuation of the UAPP was carried out as at December 31, 2004 and was then extrapolated to December 31, 2005. The unfunded liability for service prior to January 1, 1992 is financed by additional contributions of 1.25% (2004 - 1.25%) of salaries by the Province of Alberta. Employees and employers equally share the balance of the contributions of 2.28% (2004 - 1.76%) of salaries required to eliminate the unfunded liability by December 31, 2043. The actuarial valuation shows that the present value at December 31, 2004 of the Province of Alberta's obligation for the future additional contributions was $183,400. The unfunded liability for service after December 31, 1991 is financed by special payments of 2.64% (2004 - 1.26%) of salaries shared equally between employees and employers until December 31, 2017. The special payments will decrease to 1.38% of pensionable earnings on January 1, 2018 and continue until December 31, 2019. At December 31, 2005, the University's active membership in the UAPP is 49.8% of the total UAPP active membership.

The PSPP is a contributory defined benefit pension plan for support staff members. At December 31, 2005, the PSPP reported an actuarial deficiency of $187,704 (2004 - $450,068). An actuarial valuation of the PSPP was carried out as at December 31, 2002 and was then extrapolated to December 31, 2005.

b) Long-term disability and early retirement plans

The University's long-term disability plans (academic and support staff) and early retirement plans (support staff) are defined benefit plans that provide post-employment benefits to its employees. These defined benefit plans, unlike the pension benefit plans, are unfunded, meaning that there is no corresponding asset set aside to pay for the plans.

The long-term disability plans provide pension and non-pension benefits after employment, but before the employee's normal retirement date.

The early retirement plans for support staff include bridge benefits and a retirement allowance. The bridge benefit plan allows eligible employees who retire early, to continue participating in several staff benefit programs between the date of early retirement and the end of the month in which the employee turns 65. Benefits include group life insurance, Alberta Health Care, supplementary health care and dental care. The support staff retirement allowance provides eligible employees one week's base pay per full year of employment to a maximum 25 days pay.

The early retirement plan for academic staff was for bridge benefits and was terminated in 2004. This plan allowed eligible employees who retired early to continue participating in several staff benefit programs between the date of early retirement and the date of normal retirement. Participants already receiving these benefits when the plan was terminated will continue to receive bridge benefits under the original terms of the plan.

7. Pension benefit plans, long-term disability and early retirement plans (continued)

The University measures its accrued benefit obligations for accounting purposes as at March 31 of each year. The most recent actuarial valuation of the employee future benefit plans was as at March 31, 2006.

The defined benefit plan obligations are as follows:

	2006		2005	
	Long-term disability	Early retirement	Long-term disability	Early retirement
Accrued benefit obligation:				
Balance, beginning of year	$ 18,565	$ 24,925	$ 22,342	$ 25,706
Current service cost	1,887	1,151	4,042	1,268
Interest cost	938	1,256	1,356	1,430
Benefits paid	(3,402)	(1,914)	(3,462)	(1,959)
Actuarial (gain) loss	161	(559)	(5,713)	(1,520)
Balance, end of year	18,149	24,859	18,565	24,925
Plan assets	-	-	-	-
Funded status - plan deficit	18,149	24,859	18,565	24,925
Unamortized net actuarial gain (loss)	13,630	(4,801)	16,510	(5,806)
Accrued benefit liability	$ 31,779	$ 20,058	$ 35,075	$ 19,119

The significant actuarial assumptions used to measure the University's accrued benefit obligations are as follows:

	Long-term disability	Early retirement
Discount rate	4.5%	4.5%
Rate of compensation increase (includes cost of living allowance and merit increments)	not applicable (n/a)	5.0%
Assumed benefit cost trend rates:		
Dental costs:		
Academic staff	n/a	3.0%
Support staff	n/a	5.0%
Supplemental health care costs:		
Academic staff	n/a	5.0%
Support staff	n/a	7.0%
Alberta health care costs	n/a	3.0%
Existing long-term disability claims	3.0%	n/a
Pension contributions:		
Academic staff (year 1, thereafter)	8.0%, 3.0%	n/a
Support staff (year 1, thereafter)	8.0%, 3.0%	n/a
Benefit costs:		
Academic staff	5.0%	n/a
Support staff	6.0%	n/a

8. Long-term obligations

	Collateral	Maturity date	Interest rate %	Amount outstanding 2006	2005
Mortgages payable to Canada Mortgage and Housing Corporation:					
Lister Residences	Title to land, building	July 2014	5.125	$ 1,234	$ 1,350
Michener Park Phase I	Title to land, building	April 2018	5.875	2,397	2,530
MacKenzie Hall	Title to land, building	November 2018	6.250	1,277	1,341
Debenture payable to Alberta Finance:					
Housing Union Building	None	June 2008	3.285	909	1,292
Debentures payable to Alberta Capital Finance Authority:					
Saville Centre	Cash flows, Saville Centre	December 2006	3.875	156	306
Natural Resources Engineering Facility (NREF)	Cash Flows, NREF Facility	June 2007	4.088	8,000	8,000
Natural Resources Engineering Facility	Cash Flows, NREF Facility	June 2014	4.974	14,071	15,373
Energy Management Program, Year 1	None	September 2014	4.551	3,070	3,360
Energy Management Program, Year 2	None	March 2016	4.525	3,925	-
Extension Centre	None	October 2017	8.750	2,308	2,415
Steam Turbine Generator	Equipment, cash flows	May 2020	6.250	14,411	14,983
Newton Place	Title to land, building	August 2024	6.000	13,944	14,333
Newton Place Renovation	Title to land, building	August 2024	6.000	2,411	2,478
Lister Residence II	Title to land, building	November 2027	5.875	21,643	22,122
Windsor Car Park	Cash flows, Windsor Car Park	September 2028	6.000	6,641	6,774
Saville Centre	Cash flows, Saville Centre	December 2028	5.875	4,376	4,465
East Campus Village	Title to land, building	March 2029	4.960	9,093	9,302
Centennial Centre for Interdisciplinary Science Phase I	None	September 2029	5.353	9,700	9,903
Centennial Centre for Interdisciplinary Science Phase I	None	June 2030	4.518	2,136	-
Bank loans payable:					
East Campus Housing	None	September 2008	4.440	698	956
				122,400	121,283
Obligations under capital leases				2,318	3,769
Other long-term obligations (includes asset retirements and liabilities for site restoration)				2,693	2,643
				127,411	127,695
Less current portion				5,574	6,034
				$ 121,837	$ 121,661

The principal portion of long-term debt repayments required over the next five years is as follows:
2007 - $5,574; 2008 - $13,706; 2009 - $5,542; 2010 - $5,585; 2011 - $5,894

The estimated fair value for mortgages, debentures and loans payable as at March 31, 2006 is $128,270 (2005 - $132,274).

Interest expense on long-term obligations is $7,182 (2005 - $6,821).

9. Deferred contributions

Deferred contributions represent unspent externally restricted grants and donations. Changes in the deferred contributions balances are as follows:

	2006			2005
	Capital	Research and other	Total	Total
Balance, beginning of the year	$ 1,931	$ 289,070	$ 291,001	$ 262,409
Grants and donations received	143,205	425,292	568,497	521,124
Recognized as revenue	-	(405,284)	(405,284)	(354,159)
Transferred to unamortized deferred capital contributions (Note 10)	(141,788)	(39,950)	(181,738)	(138,373)
Balance, end of the year	3,348	269,128	272,476	291,001
Less amounts included in current liabilities	-	179,128	179,128	199,070
	$ 3,348	$ 90,000	$ 93,348	$ 91,931

Included in "research and other" category are grants and donations of $39,950 (2005 - $42,112) used for capital acquisitions.

10. Unamortized deferred capital contributions

Deferred capital contributions represent the unamortized grants and donations received to fund capital acquisitions. The amortization of deferred capital contributions is recorded as revenue in the statement of operations. The changes in the deferred capital contributions balance are as follows:

	2006	2005
Balance, beginning of the year	$ 745,321	$ 665,660
Additions from deferred contributions (Note 9)	181,738	138,373
Additions from Augustana merger	-	3,847
Amortization to revenue	(58,778)	(62,559)
Balance, end of the year	$ 868,281	$ 745,321

11. Endowments

Endowments consist of:

- Internal allocations by the Board of Governors (internally restricted).
- Restricted donations to the University - the principal must be maintained intact in perpetuity (externally restricted).

The investment income earned on internally restricted endowments is used to fund the Henry Marshall Tory Chairs, research and other activities of importance to the University as directed by Board of Governors' resolutions. The internally restricted endowments were created from the proceeds received in prior years from the sale of University land and from other sources. The purpose of the internally restricted endowments cannot be changed without approval of the Board of Governors.

Investment income earned on endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. Benefactors as well as University policy stipulate that the economic value of the externally restricted endowments must be protected by limiting the amount of income that may be expended and reinvesting unexpended income. Under the *Post-Secondary Learning Act*, the University has the authority to alter the terms and conditions of externally restricted endowments to enable income earned by the endowment to be withheld from distribution to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment.

In any year, if the investment income earned on endowments is insufficient to fund the spending allocation, the spending allocation is funded from the cumulative capitalized income. However, for individual endowment funds without sufficient cumulative capitalized income, endowment principal is used in the current year. This amount is expected to be recovered by future investment income.

	2006			2005		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Cumulative contributions	$ 290,874	$ 19,250	$ 310,124	$ 267,163	$ 19,250	$ 286,413
Cumulative capitalized income	281,583	48,436	330,019	246,629	23,802	270,431
	$ 572,457	$ 67,686	$ 640,143	$ 513,792	$ 43,052	$ 556,844

During the year the University capitalized $34,954 (2005 - $90) of investment income related to externally restricted endowments. A portion of this amount was added to externally restricted endowments through the authority provided to the University under the *Post-Secondary Learning Act*. The University intends that this portion be maintained in perpetuity.

The University approved a transfer of $24,634 (2005 - $0) from unrestricted net assets to internally restricted endowment net assets. The amount transferred is the current year's investment income ($4,513) as well as prior years' endowment income that the University was unable to capitalize when earned due to the net assets deficiency ($20,121).

12. Investment in capital assets and collections

Net assets invested in capital assets and collections represent the carrying amount (net book value) of capital assets and collections less unamortized deferred capital contributions and any related debt.

	2006	2005
Capital assets and collections at net book value (Note 5)	$ 1,394,649	$ 1,235,368
Less amounts financed by:		
Unamortized deferred capital contributions (Note 10)	(868,281)	(745,321)
Long-term debt related to capital expenditures	(121,777)	(124,587)
Investment in capital assets and collections, end of year	$ 404,591	$ 365,460

	2006	2005
The changes during the year are as follows:		
Investment in capital assets and collections, beginning of year	$ 365,460	$ 316,440
Acquisition of capital assets and collections (Note 13)	66,426	85,473
Repayment of long-term debt	6,638	9,679
Long-term debt, new financing	(3,830)	(42,211)
Net book value of asset disposals	(2,306)	(2,179)
Amortization of investment in capital assets	(29,174)	(26,256)
Net investment in capital assets	37,754	24,506
Contributions of assets not subject to amortization	1,377	24,514
Increase for the year	39,131	49,020
Investment in capital assets and collections, end of year	$ 404,591	$ 365,460

13. Interim internal financing of acquisition of capital assets

The University, on a temporary basis, is funding two capital projects from internal sources. Included in acquisition of capital assets and collections is $22,574 (2005 - $0) of construction in progress capital expenditures. The University has reasonable assurance that funding for these capital projects will be received from the Province of Alberta in future years.

14. Budget comparison

A Treasury Board Directive under the *Financial Administration Act* of the Province of Alberta requires universities to disclose their annual approved budgets in their financial statements.

	Actual	Budget	Variance
Revenue:			
Government	$ 657,062	$ 608,960	$ 48,102
Credit course tuition and related fees	181,798	178,739	3,059
Sales of services and products	171,321	153,764	17,557
Grants, donations and investment income	112,822	84,007	28,815
	1,123,003	1,025,470	97,533
Amortization of deferred capital contributions	58,778	63,256	(4,478)
	1,181,781	1,088,726	93,055
Expense:			
Salaries	566,489	551,817	14,672
Employee benefits	98,165	100,975	(2,810)
Materials, supplies, services and other expenses	371,856	328,988	42,868
Amortization of capital assets	87,952	85,285	2,667
	1,124,462	1,067,065	57,397
Excess of revenue over expense	$ 57,319	$ 21,661	$ 35,658

15. Salary and employee benefits

A Treasury Board Directive under the *Financial Administration Act* of the Province of Alberta requires the disclosure of certain salary and employee benefits information.

	2006				2005
	Base salary (1)	Other cash benefits (2)	Other non-cash benefits (3)	Total	Total
President (4)	$ 366	$ 27	$ 163	$ 556	$ 727
Vice-Presidents:					
Provost and Vice-President Academic	297	57	138	492	459
Vice-President Research	199	56	64	319	258
Vice-President Finance and Administration	302	-	232 (3a)	534	298
Vice-President External Relations (5)	54	12	6	72	245
Vice-President Facilities and Operations	297	-	242 (3a)	539	299

The Chair and members of the Board of Governors, the Chancellor and members of the Senate, and external members of the Board's standing committees receive no payment for their services to the University.

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include salary supplements, honoraria, administrative stipend and research grants in lieu of salary.

(3) Other non-cash benefits include the University's share of all employee benefits and contributions or payments made on behalf of employees including pension, group life insurance, supplementary health care, short and long-term disability plans, dental plan, supplemental pension plans, accidental disability and dismemberment. Benefits for some of the executive also include professional leave, car allowance and memberships. In recognition that the University uses the President's home for various University functions, the University pays for certain costs for the general operation of her home determined in accordance with a contractual arrangement entered into by the President and the University. Included in non-cash benefits is the President's taxable benefit portion (46%) of these costs.

(3a) In the current year, certain individuals became eligible for a six month professional leave. Included in non-cash benefits for the current year is the equivalent of six months salary for Vice-President Finance and Administration ($154) and Vice-President Facilities and Operations ($151).

(4) Two individuals held this position in the current year.

(5) The External Relations portfolio was vacant effective August 1, 2005.

16. Contingent liabilities and commitments

a) The University is a defendant in a number of legal proceedings. While the ultimate outcome and liability of these proceedings cannot be reasonably estimated at this time, the University believes that any settlement will not have a material adverse effect on the financial position or the results of operations of the University. Administration has concluded that none of the claims meet the criteria for being recorded under GAAP.

b) Academic staff members are entitled to a professional expense allowance, enabling them to incur expenditures for their teaching, research, professional, or general University duties. At March 31, 2006 approximately $6,897 (2005 - $6,130) of such allowances is committed for expenditures not yet incurred.

c) The University is one of 56 members of CURIE, the Canadian Universities Reciprocal Insurance Exchange, a self-insurance reciprocal established to share the insurable property, liability, and errors and omissions risks of member universities. The projected cost of claims against the exchange is based on actuarial projections and is funded through members' premiums. As at December 31, 2005 CURIE had a surplus of $11,175 (2004 - $5,995). This surplus is an accumulation of four different underwriting periods. The University participates in three of the underwriting periods, which have an accumulated surplus of $8,327 (2004 - $3,262) of which the University's pro rata share is approximately 6.79% (2004 - 6.42%).

d) At March 31, 2006 the University has contractual commitments for capital projects greater than $1 million of $764,637 (2005 - $161,787).

e) On March 31, 2005 the University renewed their 5 year agreement for information technology support with an external party. The cost of $32,124 over the remaining 4 years provides for manager application support services.

f) In order to manage its exposure to the volatility in the electrical industry, the University has entered into contracts to fix a portion of its electrical cost at an average of $64.16 per megawatt hour. The three contracts totaling $16,091 (2005 - $1,899) expire on December 2007, December 2010 and December 2012.

17. Related party transactions

The University operates under the authority and statutes of the Province of Alberta. Transactions between the University and the Province of Alberta are summarized below.

	2006	2005
Advanced Education:		
Operating grant	$ 356,072	$ 304,119
Access grants	16,269	21,246
Performance envelope award	4,999	3,850
Other	45,041	22,215
Total Advanced Education	422,381	351,430
Other provincial departments, and agencies:		
Alberta Infrastructure and Transportation	48,673	94,003
Alberta Innovation and Science	30,422	31,006
Alberta Health and Wellness	27,448	22,866
Alberta Foundation for Medical Research	23,067	23,933
Alberta Ingenuity Fund	6,188	6,243
Other	18,513	19,577
Total other provincial departments and agencies	154,311	197,628
Total contributions received	576,692	549,058
Less: deferred contributions	(58,413)	(74,658)
Revenue from Province of Alberta	$ 518,279	$ 474,400

The University of Alberta has accounts receivable from the Province of Alberta of $31,815 (2005 - $17,414) and accounts payable of $522 (2005 - $507). The Province of Alberta has provided $1,000 (2005 - $0) in matching grants for externally restricted endowment contributions, which is included in endowment net assets.

18. Comparative figures

Certain 2005 figures have been reclassified to conform to the presentation adopted in the 2006 financial statements.

UNIVERSITY OF CALGARY

Financial Statements

For the year ended March 31, 2006

Auditor's Report

Financial Statements:

- Consolidated Statement of Financial Position
- Consolidated Statement of Revenue and Expense
- Consolidated Statement of Changes in Net Assets
- Consolidated Statement of Cash Flows
- Notes to the Consolidated Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of The University of Calgary

I have audited the consolidated statement of financial position of the University of Calgary as at March 31, 2006 and the consolidated statements of revenue and expense, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the University's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
June 9, 2006

UNIVERSITY OF CALGARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2006
(thousands of dollars)

ASSETS

	2006	2005
CURRENT ASSETS		
Cash and cash equivalents (note 3)	$ 154,329	$ 127,631
Investments (note 3)	94,241	100,433
Accounts receivable	82,323	63,044
Inventories	5,934	5,688
Prepaid expenses	4,283	3,390
	341,110	300,186
LONG-TERM INVESTMENTS (note 4)	351,277	298,357
OTHER LONG-TERM ASSETS (note 5)	29,249	17,247
CAPITAL ASSETS AND COLLECTIONS (note 6)	720,282	665,513
	$ 1,441,918	$ 1,281,303

LIABILITIES AND NET ASSETS

	2006	2005
CURRENT LIABILITIES		
Accounts payable	$ 74,110	$ 78,999
Deferred revenue	16,116	17,332
Deferred contributions, research and other (note 7)	244,802	157,034
Current portion of long-term liabilities (note 9)	5,623	35,113
	340,651	288,478
DEFERRED CAPITAL CONTRIBUTIONS (note 7)	7,578	3,900
LONG-TERM LIABILITIES (note 9 and note 10)	24,457	24,824
UNAMORTIZED DEFERRED CAPITAL CONTRIBUTIONS (note 8)	475,447	442,658
NET ASSETS		
Restricted for endowment purposes (note 11)	355,358	295,719
Investment in capital assets and collections (note 12)	221,410	200,576
Internally restricted (note 13)	27,301	24,028
Unrestricted (note 14)	(10,284)	1,120
	593,785	521,443
	$ 1,441,918	$ 1,281,303

Commitments and contingencies (Note 19)

Signed on behalf of the Board of Governors:

Member of the Board

Vice-President (Finance & Services)

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF REVENUE AND EXPENSE
FOR THE YEAR ENDED MARCH 31, 2006
(thousands of dollars)

	2006	2005
REVENUE		
Government of Alberta grants (note 20)	$ **337,099**	$ 303,099
Other government grants	**77,187**	75,813
Donations and other grants	**67,949**	66,714
Credit tuition and related fees	**120,319**	116,485
Non-credit tuition and related fees	**13,706**	13,328
Sales of services and products	**74,745**	72,211
Amortization of deferred capital contributions (note 8)	**38,910**	59,843
Investment income (note 15)	**32,359**	21,138
	762,274	728,631
EXPENSE		
Salaries	**378,168**	359,479
Benefits	**59,869**	53,469
Materials, supplies and services	**125,203**	108,725
Amortization of capital assets	**66,654**	79,277
Utilities	**24,294**	21,280
Scholarships, grants and awards	**37,578**	33,640
Travel	**21,478**	21,917
Cost of goods sold	**15,734**	17,113
Maintenance and repairs	**10,702**	11,021
Financing	**1,627**	3,704
	741,307	709,625
EXCESS OF REVENUE OVER EXPENSE, for the year (note 17)	$ **20,967**	$ 19,006
Internally restricted for endowments and future commitments	**(15,038)**	(15,945)
EXCESS OF REVENUE OVER EXPENSE, net of Board transfers	$ **5,929**	$ 3,061

The accompanying notes are part of these consolidated financial statements.

UNIVERSITY OF
CALGARY

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2006
(thousands of dollars)

	Restricted for Endowment Purposes (note 11)	Investment in Capital Assets & Collections (note 12)	Internally Restricted (note 13)	Unrestricted (note 14)	2006 Total	2005 Total
NET ASSETS, beginning of year	$ 295,719	$ 200,576	$ 24,028	$ 1,120	$ 521,443	$ 482,803
Excess of revenue over expense	-	-	-	20,967	20,967	19,006
Amortization of internally funded capital assets	-	(27,744)	291	27,453	-	-
Expenditure of Internally Restricted net assets	-	-	(1,351)	1,351	-	-
Purchase and contribution of capital assets	-	49,790	(899)	(48,793)	98	2
Transfer to long-term debt	-	(4,853)	-	4,853	-	-
Repayment of long-term debt	-	3,641	-	(3,641)	-	-
Board transfers	1,171	-	9,817	(10,988)	-	-
Transfers for endowment expenditures	(13,013)	-	-	328	(12,685)	(8,208)
Investment gain (loss) on endowments	45,269	-	-	(4,050)	41,219	18,452
Contributions	26,212	-	(4,585)	1,116	22,743	9,388
NET ASSETS, end of year	$ 355,358	$ 221,410	$ 27,301	$ (10,284)	$ 593,785	$ 521,443

The accompanying notes are part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2006
(thousands of dollars)

	2006	2005
CASH PROVIDED FROM (USED IN):		
OPERATING ACTIVITIES		
Excess of revenue over expense	$ 20,967	$ 19,006
Items not affecting cash flow:		
Amortization of capital assets	66,654	79,277
Amortization of deferred capital contributions	(38,910)	(59,843)
Gain on non-endowed & internally endowed investments	(10,274)	(1,546)
Net change in non-cash working capital	67,437	20,053
	105,874	56,947
INVESTING ACTIVITIES		
Purchase of capital assets	(121,423)	(146,027)
Contribution of non-amortizable assets	98	2
(Increase) Decrease in other assets	(12,002)	435
Proceeds of long-term investments, net	(20,198)	(13,573)
Gain on externally endowed investments	(22,460)	(6,757)
	(175,985)	(165,920)
FINANCING ACTIVITIES		
Endowment contributions	22,743	9,388
Capital contributions	75,377	108,506
Net decrease in long-term liabilities	(29,857)	(514)
Market value increase of external endowments	22,460	6,757
Excess of investment revenue over expenditures capitalized to endowments	6,086	3,487
	96,809	127,624
INCREASE IN CASH AND CASH EQUIVALENTS	26,698	18,651
CASH AND CASH EQUIVALENTS, beginning of year	127,631	108,980
CASH AND CASH EQUIVALENTS, end of year (note 3)	$ 154,329	$ 127,631

Net change in non-cash working capital:	2006	2005
Decrease (Increase) in Investments	$ 6,192	$ (4,277)
(Increase) Decrease in Accounts receivable	(19,279)	28,460
Increase in Inventories	(246)	(655)
(Increase) Decrease in Prepaid expenses	(893)	104
(Decrease) Increase in Accounts payable	(4,889)	6,312
Decrease in Deferred revenue	(1,216)	(698)
Increase (Decrease) in Deferred contributions, research and other	87,768	(9,193)
	$ 67,437	$ 20,053

The accompanying notes are part of these consolidated financial statements.

Note 1 Authority and Purpose

The University of Calgary ("the University") operates under *The Post-Secondary Learning Act*. It is a Board-governed, comprehensive research University offering undergraduate and graduate degree programs as well as a full range of continuing education programs and activities. The University is a registered charity, and under Section 149 of the *Income Tax Act*, is exempt from the payment of income tax. The tax exemption does not extend to its wholly-owned subsidiary, University Technologies International Inc.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) General

The financial statements of the University have been prepared in accordance with Canadian generally accepted accounting principles, known as GAAP. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results. Such estimates have been made using judgments determined by the University's administration. In administration's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

(b) Consolidated Statements

The financial statements are prepared on a consolidated basis and include:

- the combined accounts of University Technologies International Group consisting of:
    - University Technologies International Inc. (UTI),
    - University Technologies International Limited Partnership (UTI LP), a limited partnership held in trust by the University,
    - UTI LP's wholly owned subsidiaries,
- the accounts of The Arctic Institute of North America (AINA), a non-profit organization controlled by the University, and
- the accounts of the American Friends of the University of Calgary, an American charitable foundation that encourages financial support for the University.

UTI LP operates to facilitate the transfer of intellectual property from the University to private business. AINA operates under the authority of the Act of the Federal Parliament (9-10 George VI, Chapter 45) to initiate, encourage and support northern research and to advance the study of arctic conditions and problems.

(c) Revenue Recognition

The financial statements record the following items as revenue – at the following times:

- Operating grants – when received or receivable, or, where a portion of the grant relates to a future period, it is deferred and recognized in the subsequent period.
- Unrestricted contributions - when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.
- Unrestricted investment income - when earned.
- Tuition fees – when the instruction is delivered.
- Revenues received for sales of services and products - when the services are substantially provided or the products are delivered.
- Donations of materials and services – recorded at fair value when a fair value can be reasonably determined and when materials and services would otherwise have been purchased.
- Pledges - when collected.
- Restricted contributions and grants - based on the deferral method as summarized below:

Restricted contributions – deferral method

Contributions, including investment income on the contributions, that are restricted for purposes other than endowment or the acquisition of capital assets, are deferred and recognized as revenue when the conditions of the contribution are met.

Contributions to acquire capital assets with a limited life are first recorded as deferred capital contributions when received, until the contribution is invested in capital assets. When expended, amounts representing funded capital assets are then transferred to unamortized deferred capital contributions and amortized as deferred capital contributions in the periods in which the related amortization expense of the funded capital asset is recognized.

Contributions restricted to the acquisition of land and permanent collections are first recorded as deferred contributions when received, and when expended, they are recognized as direct increases in capital assets and collections.

Endowment contributions, including investment earnings, are recognized as direct increases in endowment net assets. Investment earnings, under agreements with benefactors or *The Post-Secondary Learning Act* allocated to endowment principal, are also recognized as direct increases in endowment net assets. Endowment investment earnings that are allocated for spending are deferred and recognized as revenue when the conditions of the endowment are met. (Note 15).

(d) Investments

Short-term investments are recorded at the lower of cost or market.

Long-term investments are recorded at fair market value, except for investments in joint venture and common shares subject to restrictions, which are recorded at cost. Fair market value for marketable securities is determined based on the current market price of the underlying asset. Changes in market values from one period to the next are included in the investment income (loss) for the period (Note 15). Such investment income (loss) is included in revenue in accordance with the University's revenue recognition policies (Note 2c).

(e) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Cost is determined on a weighted moving average basis.

(f) Patents

Patents are recorded at cost and include acquisition and maintenance costs. The carrying value of patents related to a project is limited to the estimated future net cash flows expected to be derived from the project. Patent costs in excess of estimated future net cash flows are written off.

Patents are amortized on a straight-line basis over a 10 year estimated useful life.

(g) Capital Assets and Collections

Capital assets purchased are recorded at cost. In-kind contributions are recorded at fair market when a fair value can be reasonably determined. Permanent collections are not amortized and include that portion of library assets with permanent value and works of art held for education and public exhibition purposes.

Buildings and plant include construction in progress. The costs of buildings under construction are not amortized until construction is substantially complete and the assets are ready for productive use.

Software development is not amortized until development is complete and the assets are ready for productive use.

Amortization is recorded on a straight-line basis over the estimated useful lives of the capital assets, as follows:

- Buildings and plant	40 years
- Site improvements	20 years
- Telecommunication equipment, furnishings and library acquisitions	10 years
- Equipment	6 years, average
- Software	3 years

(h) Employee Future Benefits

The University participates with other employers in the Universities Academic Pension Plan and the Public Service Pension Plan. These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees based on years of service and earnings. Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates that are expected to provide for benefits payable under the respective pension plans. The University does not record the University's portion of the pension plans' deficit or surplus.

The University has a number of defined benefit plans providing long-term disability, early retirement incentives and pension benefits. The early retirement plans were available to employees from 1992 to 1998. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on service, a market interest rate and management's best estimate of the retirement ages of employees, expected health care costs and the terms of employee disability agreements. With respect to employees on long-term disability, actuarial gains and losses are amortized over the average expected term of the payments. With respect to the early retirement incentive plan, actuarial gains and losses are recognized immediately. With respect to the supplemental pension obligation, for each plan participant, the balance of actuarial gains and losses in excess of 10% of the accrued benefit obligation is amortized over the expected service lifetime.

(i) Credit, Interest Rate and Market Risk

The University's accounts receivable are due from a diverse group of customers and are subject to normal credit risks.

The interest rate risk is the risk to the University's earnings that arises from the fluctuations in interest rates and the degree of volatility of these rates.

The market risk is the risk to the University's earnings that arises from the fluctuations and degree of volatility in the market value of its long-term investments.

(j) Financial Instruments

The carrying value of financial assets and financial liabilities are considered to approximate fair value unless otherwise disclosed.

Note 3 Cash and Cash Equivalents and Investments

	2006				2005	
	Cash & Cash Equivalents (1)	Current Investments (2)	Total Cost	Total Market (3)	Total Cost	Total Market
Money market investments	$ 145,447	$ -	$ 145,447	$ 145,447	$ 127,383	$ 127,383
Bank balances	8,882	-	8,882	8,882	248	248
Bonds (4)	-	77,011	77,011	77,051	100,433	101,092
Shares	-	1,242	-	1,242	-	-
Mortgage Fund	-	15,988	15,988	15,988	-	-
Balance, end of year	$ 154,329	$ 94,241	$ 247,328	$ 248,610	$ 228,064	$ 228,723
Total, 2005	$ 127,631	$ 100,433	$ 228,064	$ 228,723		

(1) Money market investments are purchased at a discount. The University Investment Policy states these investments must be rated R-1 low or better (rated by Dominion Bond Rating Service). At March 31, 2006 the investments held have an average effective yield of 3.82% (2005 – 2.60%) and will mature within 38 days (2005 – 45 days). The University of Calgary invests in an externally managed money market fund with an average yield for 2006 of 3.45% (2005 - 2.51%). The combined average realized return on money market investments for 2006 was 3.61% (2005 – 2.38%).

(2) Current investments consist primarily of bonds that have a maximum allowable term of nine years and stated interest ranging from 3.25% to 10.55% (2005 – 3.0% to 8.0%). All bonds have a rating of a single "A" or better. Effective yield for bonds is calculated based on carrying values at year-end and is disclosed on a weighted average basis using the duration method.

(3) Market value approximates fair value of investments.

(4) The effective yields on bonds are as follows:

	2006		2005	
	Effective Yield	Cost	Effective Yield	Cost
Current Investments - Bond Maturity				
0-2 years to maturity	4.69%	$ 12,209	1.63%	$ 7,790
2-5 years to maturity	4.91%	27,017	4.09%	77,614
> 5 years to maturity	5.19%	37,785	6.92%	15,029
Total		$ 77,011		$ 100,433

Note 4 Long-term Investments

	2006		2005	
	Annual Market Yield		Annual Market Yield	
Money market investments		$ 831		$ 160
S&P/TSX index	28.43%	8,633	14.02%	96,267
Bond index	4.85%	90,146	5.04%	85,406
International index	19.52%	70,930	6.62%	59,342
S & P 500 index	7.75%	55,538	-1.74%	52,769
Canadian shares	26.57%	124,862	-	4,122
U.S. shares	-	4	-	-
British shares	-	16	-	-
Investment in joint venture	-	317	-	291
Balance, end of year		$ 351,277		$ 298,357

The University of Calgary Investment Committee, a subcommittee of the Board of Governors, has the delegated authority for the oversight of the University's investments. This committee is comprised of six voting members, which include two members of the Board of Governors and four members from the community appointed by the Board of Governors. Non-voting officials include the Vice-President (Finance and Services); the Director, Treasury and Investments; General Counsel and Corporate Secretary. It meets on a quarterly basis during the year to monitor investments and to review the performance of the Investment Managers to ensure they are in compliance with the investment objectives and policies of the University. The Committee reports annually to the Board of Governors.

The University employs a mix of passive and active investment management strategies for long-term investments and an active management strategy for the short-term money market portfolio and short-term bond portfolio. For the long-term endowment portfolio, the Investment Committee established the asset mix at 70% equity and 30% debt. Within the equity mix, the Investment Committee further sets out acceptable ranges for investment within the various funds (Canadian 30%, U.S. 20%, International 20%). The University employs a strict rebalancing policy to ensure the asset mix stays within the allowable range for each class.

The University of Calgary Investment Committee uses time-weighted rates of return in comparison to like funds or indexes to assess the performance of the Investment Managers. The University also reports the market values and time-weighted rates of return at December 31 each year to the Canadian Association of University Business Officers (CAUBO) Investment Survey. This survey compares and ranks the endowment funds of Canadian universities and is available to all Canadian universities.

Note 5 Other Long-term Assets

	2006	2005
Receivable from Alberta Heritage Foundation for Medical Research [1]	$ 15,000	$ -
Capital lease receivable [2]	15,586	15,739
Other long-term assets	780	779
Patents [3]	1,048	982
	32,414	17,500
Current portion in Accounts Receivable	(3,165)	(253)
Balance, end of year	**$ 29,249**	**$ 17,247**

(1) Funds to be received to cover capital costs already incurred on specific projects.

(2) The University and the Calgary Health Region entered into a 25-year agreement for the Region to lease space in the University Research Centre Building. This lease has been accounted for as a capital lease. The University's capital lease receivable is $15,586 (2005 - $15,739). The future minimum lease payments for the next five fiscal years are as follows: 2007 - $165; 2008 - $177; 2009 - $230; 2010 - $277; 2011 - $298.

(3) The cost of patents is $2,077 (2005 - $2,183) and the accumulated amortization is $1,029 (2005 - $1,201). During the year patents with a net book value of $136 were written off (2005 - $171).

Note 6 Capital Assets and Collections

	2006			2005		
	Cost [2]	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Buildings, plant and site improvements	$ 910,485	$ 409,116	$ 501,369	$ 852,909	$ 382,446	$ 470,463
Furnishings, equipment and systems [1]	419,988	286,720	133,268	387,764	262,903	124,861
Library books	138,220	103,933	34,287	128,269	98,711	29,558
Software	53,065	35,255	17,810	39,458	32,191	7,267
Land	22,828	-	22,828	22,768	-	22,768
Art collection	7,629	-	7,629	7,525	-	7,525
Rare books and archives collection	3,091	-	3,091	3,071	-	3,071
Balance, end of year	$ 1,555,306	$ 835,024	$ 720,282	$ 1,441,764	$ 776,251	$ 665,513

(1) Capital Leases

Included in furnishings, equipment and systems are assets under capital leases in the amount of $887 (2005 - $648). Accumulated amortization is $138 (2005 – $87) on these assets.

(2) *Donated Assets*

Capital acquisitions during the year included donations-in-kind in the amount of $16,342 (2005 - $3,171).

Note 7 Deferred Contributions

Deferred contributions represent unspent externally restricted grants and donations. Changes in the deferred contributions balance are as follows:

	2006		2005	
	Research & Other [1]	Capital	Research & Other [1]	Capital
Contributions received during the year:				
Government of Alberta grants	$ 139,992	$ 61	$ 120,861	$ -
Other government grants	107,377	-	97,714	-
Sales	1,233	5	976	-
Donations & other grants	102,404	13,313	70,709	5,215
Investment income (note 15)	6,884	84	10,024	76
	$ 357,890	$ 13,463	$ 300,284	$ 5,291
Transferred to revenue:				
Government of Alberta grants	$ 71,504	$ 61	$ 65,060	$ 605
Other government grants	76,929	-	74,717	-
Sales	1,233	5	1,039	-
Donations & other grants	60,415	28	54,905	-
Investment income (note 15)	6,884	84	9,781	-
	$ 216,965	$ 178	$ 205,502	$ 605
Net change in accounts receivable	9,036	-	4,324	-
Transferred to unamortized deferred capital contributions (note 8)	(62,188)	(9,511)	(108,285)	(20,388)
Transferred to investment in capital assets	(2)	(96)	-	-
Transferred from restricted accounts	(3)	-	(14)	(3,175)
(Decrease) increase during the year	$ 87,768	$ 3,678	$ (9,193)	$ (18,877)
Balance, beginning of year	157,034	3,900	166,227	22,777
Balance, end of year	$ 244,802	$ 7,578	$ 157,034	$ 3,900

(1) Includes research grants expended for capital and other purposes.

Note 8 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the externally funded portion of capital assets, which will be recognized as revenue in future periods. Changes in the unamortized deferred capital contributions balance are as follows:

	2006	2005
Transfer from Deferred Contributions (note 7)	$ 71,699	$ 128,673
Amortized to revenue	(38,910)	(59,843)
Increase during the year	32,789	68,830
Balance, beginning of year (note 12)	442,658	373,828
Balance, end of year	$ 475,447	$ 442,658

Note 9 Long-term Liabilities

	Rate of Interest	Original Advance	2006	2005
* Debenture for Cascade Hall, due May 1, 2025	6.250%	$ 16,500	$ 14,855	$ 15,225
* Debenture for Human Performance Lab, due March 16, 2011	4.349%	4,100	4,100	-
Mortgage for University Research Centre, due April 1, 2012	0.000%	5,500	3,392	3,942
Financing for Adminstrative Renewal project, due June 30,2007	3.003%	3,657	1,852	2,855
* Debentures for Art Building, due December 15, 2006	9.75 % & 10%	11,700	1,235	2,360
Mortgage for the Dining Centre, Kananaskis and Rundle Halls, due March 1, 2016	5.125%	2,165	928	998
* Debenture for Norquay, Brewster and Castle Halls, due January 15, 2007	9.750%	3,953	416	795
* Debenture for Car Park in MacEwan Student Centre, due October 1, 2006	9.750%	1,900	200	382
* Debenture for University Research Centre, due June 3, 2005	4.750%	30,700	-	30,700
Mortgage for Varsity Courts, due November 1, 2005	7.875%	3,714	-	175
			26,978	57,432
Due to Alberta Heritage Foundation for Medical Research			223	229
Due to Western Economic Diversification Canada			390	155
Due to AVAC Ltd.			100	-
Minority interest in subsidiary companies			41	106
Obligation under capital leases			887	471
Long-term disability plans (note 10)			281	260
Early retirement incentive plans (note 10)			226	493
Supplemental pension obligations (note 10)			954	791
			30,080	59,937
Current portion of long-term liabilities			(5,623)	(35,113)
Balance, end of year			$ 24,457	$ 24,824

* Indicates payable to Alberta Capital Finance Authority which is a related party.

The debentures and mortgages are secured by land and buildings and are carried at their amortized value. The estimated fair market value for debentures and mortgages as at March 31, 2006 is $29,773 (2005 - $61,606). The fair market value of long-term debt is determined by discounting future cash flows using market rates representing rates that the University could obtain at March 31, 2006 for loans with similar terms, conditions and maturities.

During the year, interest on long-term debt amounting to $1,620 (2005 - $2,943) has been charged to expense.

Principal payments on the debentures and mortgages during the next five fiscal years are as follows: 2007 - $5,071; 2008 - $2,229; 2009 - $1,894; 2010 - $1,962; 2011 - $2,034.

Payments on the early retirement incentive plans during the next five fiscal years are as follows: 2007 - $162; 2008 - $58; 2009 -$10; 2010 - $NIL; 2011 - $NIL.

The future minimum lease payments under capital leases are as follows:

2007	$	411
2008		411
2009		97
2010		-
2011		-
Total minimum lease payments	$	919
Less, imputed interest at an average interest rate of 3.24%		(32)
Balance of capital lease obligation	$	887

Note 10 Future Employee Benefits

The University has defined benefit plans that provide future employment benefits, which include long-term disability leave plans, retirement incentive plans and supplemental pension obligations. The early retirement plans were available to employees from 1992 to 1998. Information about the University's defined benefit plans is as follows:

	2006			2005		
	Long-term Disability	Early Retirement Incentive	Supplemental Pension Obligation	Long-term Disability	Early Retirement Incentive	Supplemental Pension Obligation
Development of Expense						
Current service cost	$ -	$ -	$ 120	$ -	$ -	$ 118
Interest cost	41	16	52	23	32	41
Amortization of transitional obligation	-	-	1	-	-	1
Amortization of net actuarial losses (gains)	(16)	-	2	29	(35)	4
Amortization of past service cost	87	-	-	-	-	-
Curtailment	-	-	-	-	-	110
Expense	$ 112	$ 16	$ 175	$ 52	$ (3)	$ 274
Financial Status						
Plan assets	-	-	-	-	-	-
Accrued Benefit Obligation	864	226	1,004	914	493	844
Funded status - plan deficit	(864)	(226)	(1,004)	(914)	(493)	(844)
Unamortized net actuarial (gains) losses	(202)	-	48	(218)	-	50
Unamortized past service costs	785	-	-	872	-	-
Unamortized transitional obligation	-	-	2	-	-	3
Accrued benefit liability (note 9)	$ (281)	$ (226)	$ (954)	$ (260)	$ (493)	$ (791)
Reconciliation of Accrued Benefit Obligation						
Accrued Benefit Obligation, beginning of year	914	493	844	518	867	626
Current service cost	-	-	120	-	-	118
Interest cost	41	16	52	23	32	41
Benefits paid	(91)	(283)	(12)	(50)	(371)	(12)
Actuarial (gain) loss	-	-		(449)	(35)	(35)
Past service cost	-	-	-	872	-	-
Curtailment loss	-	-	-	-	-	106
Accrued Benefit Obligation, end of year	$ 864	$ 226	$ 1,004	$ 914	$ 493	$ 844

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligations are as follows:

	Long-term Disability		Early Retirement Incentive		Supplemental Pension Obligation	
	2006	2005	2006	2005	2006	2005
Accrued benefit obligation as of March 31						
Discount Rate	4.75%	4.75%	4.75%	4.75%	5.5%	5.5%
Average compensation increase	n/a	n/a	n/a	n/a	4%	4%
Benefit costs for years ended March 31						
Discount rate	4.75%	4.75%	4.75%	4.75%	5.5%	5.5%
Average compensation increase	n/a	n/a	n/a	n/a	4%	4%

Assumed health care cost trend rates at March 31	2006	2005
Dental costs	3%	3%
Extended health care costs	6.0%	6.5%
Alberta health care costs	3%	3%
Extended health care trend rate declines by 2008 to 5%		

The University participates with other employers in the Universities Academic Pension Plan (UAPP) and the Public Service Pension Plan (PSPP). These pension plans are multi-employer defined benefit plans that provide pensions for the University's participating employees based on years of service and earnings. The pension expense recorded in these financial statements is equivalent to an actuarially determined contributions payable of $22,421 for the year ended March 31, 2006 (2005 - $19,120).

The PSPP is a contributory defined benefit pension plan for support staff members. At December 31, 2005, the PSPP reported an actuarial deficiency of $187,704 (2004 - $450,068). An actuarial valuation of the PSPP was carried out as at December 31, 2002 and was then extrapolated to December 31, 2005.

The UAPP is a multi-employer contributory defined benefit pension plan for academic staff members and other eligible employees of the Universities of Alberta, Calgary and Lethbridge, Athabasca University and The Banff Centre. At December 31, 2005, the UAPP reported an unfunded liability of $537,415 (2004 - $643,979) consisting of a pre-1992 deficiency ($460,286) and a post-1991 deficiency ($77,129). The plan's unfunded liability for service prior to January 1, 1992 is being financed by additional contributions of 1.25% (2004 – 1.25%) of salaries by the Province of Alberta with employers and employees equally sharing the balance of the contributions of 2.28% (2004 – 1.76%) of total salaries in order to eliminate the unfunded liability by December 31, 2043. The present value at December 31, 2005 of the Province of Alberta's obligation for future additional contributions is $195,500 and March 31, 2006 is $197,100.

The Plan's unfunded liability for service after December 31, 1991 is being financed by special payments based on pensionable salaries shared between employees and employers as follows:

Period of Payment	Percentage of Pensionable Salary
December 31, 2004 December 31, 2017	2.64% (2004 – 1.26%)
December 31, 2017 – December 31, 2019	1.38% (2004 – nil)

The University of Calgary's share of the total unfunded liability projected to March 31, 2006 is $60,400 ($47,600 for pre-1992 service and $12,800 for post-1991 service). The unfunded liability is based on the December 31, 2004 funding assumptions adopted by the UAPP Board of Trustees and does not reflect the decline in bond yield that has occurred since December 31, 2004.

As noted above, the determination of the University's share of the UAPP unfunded liability reflects the assumptions used by the UAPP Board. If the University of Calgary were to follow the employer financial reporting under the defined benefit accounting rules of CICA Section 3461, the assumptions used, and accordingly the University's estimated unfunded liability would be different. The revised estimate, assuming the funding responsibilities of the Province of Alberta stayed constant, would be approximately $143,000.

Note 11 Net Assets Restricted for Endowment Purposes

Endowments consist of:

- Restricted donations to the University - the principal must be maintained intact in perpetuity (externally restricted)
- Internal allocations by the Board of Governors (internally restricted).

The investment income earned on endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. The economic value of the endowments are protected by limiting the amount of investment income that may be spent to 5% of the 4 year rolling market average of the principal donation, except as otherwise stipulated by the donor. Investment income earned in excess of this amount is added to the endowment principal. Under *The Post-Secondary Learning Act*, the University has the authority to alter the terms and conditions of externally restricted endowments to enable income earned by the endowment to be withheld from distribution to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment.

In any year, if the investment income earned on endowments is insufficient to fund the spending allocation, or should the investment return be negative, the spending allocation is funded from the cumulative capitalized earnings. However, for individual endowment funds without sufficient cumulative capitalized earnings, endowment capital is used in the current year. This amount is expected to be recovered by future investment income.

			2006			2005
	External	Internal	Total	External	Internal	Total
Contributions received during the year	$ 23,160	$ 3,052	$ 26,212	$ 9,388	$ 182	$ 9,570
Board approved transfers	-	1,171	1,171	62	1,947	2,009
Endowment spending allocation including fees	(10,414)	(2,599)	(13,013)	(9,860)	(444)	(10,304)
Investment income [(1)]	38,620	6,649	45,269	18,458	1,521	19,979
Increase during the year	51,366	8,273	59,639	18,048	3,206	21,254
Balance, beginning of year	243,786	51,933	295,719	225,738	48,727	274,465
Balance, end of year	$ 295,152	$ 60,206	$ 355,358	$ 243,786	$ 51,933	$ 295,719

Cumulative contributions	$ 171,939	$ 29,844	$ 201,783	$ 148,779	$ 26,792	$ 175,571
Cumulative capitalized earnings	123,214	30,362	153,576	95,007	25,141	120,148
Balance, end of year	$ 295,152	$ 60,206	$ 355,358	$ 243,786	$ 51,933	$ 295,719

(1) Investment income does not include realized investment income that is used to offset expenditures in the consolidated statement of revenue and expense.

Note 12 Net Assets Investment in Capital Assets and Collections

Net assets invested in capital assets and collections represent the carrying amount (net book value) of capital assets and collections less unamortized deferred capital contributions and any related debt.

	2006	2005
Capital assets and collections, at cost	$ 1,555,306	$ 1,441,764
Accumulated amortization	(835,024)	(776,251)
Patents, at cost	2,077	2,183
Accumulated amortization of patents	(1,029)	(1,201)
Net book value	721,330	666,495
Less amounts financed by:		
Unamortized deferred capital contributions (note 8)	(475,447)	(442,658)
Long-term debt	(24,473)	(23,261)
Balance, end of year	**$ 221,410**	**$ 200,576**

Note 13 Net Assets Internally Restricted

Internally restricted net assets represent amounts set aside by the University's Board of Governors for specific purposes. These amounts are not available for other purposes without the approval of the Board. At March 31, 2006, net assets have been set aside for the following purposes:

	2006	2005
Subsidiaries	$ 1,430	$ 4,743
Indirect Research Support	1,142	2,411
Internally Restricted for Future Commitments and Strategic Reinvestments	22,769	14,785
Faculty and Departmental	1,960	2,089
Balance, end of year	$ 27,301	$ 24,028

Note 14 Net Assets Unrestricted

The deficit in unrestricted net assets of $10,284 at March 31, 2006 is a result of temporary timing differences in cash flows related to two major capital projects.

Note 15 Investment Income

	2006	2005
Gain on externally restricted endowments	$ 38,961	$ 18,468
Gain on internally restricted endowments	7,874	3,801
Gain on non endowed investments	14,076	9,432
	60,911	31,701
Amounts previously deferred and recognized in year	(6)	(243)
Amounts credited directly to capital contributions (note 7)	-	(76)
Income capitalized to externally restricted endowments	(22,460)	(6,757)
Excess of revenue over expenditures capitalized to endowments	(6,086)	(3,487)
Total Investment income recognized as revenue	**$ 32,359**	**$ 21,138**

Note 16 Salaries and Benefits

In accordance with Province of Alberta Treasury Board Directive 12/98, amended on July 6, 2004, the salaries and benefits of the University's senior decision management group are disclosed as follows:

	Base Salary [1]	Other Cash Benefits[2]	Other Non-Cash Benefits[3]	2006 Total	2005 Total
Governance [4]					
Chair of the Board of Governors	$ -	$ -	$ -	$ -	$ -
Members of the Board of Governors	-	-	-	-	-
Executive					
President	309	-	140	449	418
Vice-Presidents:					
Provost and Academic	220	20	66	306	291
Finance and Services	220	3	50	273	259
Research and International	175	-	43	218	211
External Relations	197	-	58	255	237
Total	$ 1,121	$ 23	$ 357	$ 1,501	$ 1,416

(1) *Base Salary*

Base salary includes regular base pay.

(2) *Other Cash Benefits*

Other cash benefits include honorariums.

(3) *Other Non-cash Benefits*

Other non-cash benefits include the University's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, accidental disability and dismemberment insurance, long and short term disability plan, workers compensation, supplemental pension plans and professional expense allowance. Benefits reported for the President include a housing allowance. Benefits reported for the President and Vice-Presidents include car allowances or the taxable benefit for the use of University leased vehicles.

(4) *Governance*

The Board of Governors governs the University. Members are either appointed or serve in an ex-officio capacity. Members may be employed by the University. Members do not receive remuneration for their participation on the Board.

Note 17 Budget Comparison

A Treasury Board Directive under the *Financial Administration Act* requires universities to disclose their annual approved budgets in their financial statements. The University's 2005-06 budget was approved by the Board of Governors on April 22, 2005. Subsequent to the Board approval, the provincial government committed to a $4.2M increase in the University's base operating grant. This increase is reflected in the following budget schedule which was also incorporated in the University's 2005-06 Business Plan.

	2006		2005	
	Budget	Actual	Budget	Actual
REVENUE				
Government of Alberta grants & Other government grants	$ 421,968	$ 414,286	$ 384,869	$ 378,912
Donations and other grants	70,349	67,949	68,529	66,714
Credit tuition and related fees	123,170	120,319	117,982	116,485
Non-credit tuition and related fees	15,970	13,706	16,649	13,328
Sales of services and products	81,680	74,745	80,451	72,211
Amortization of deferred capital contributions	56,925	38,910	60,348	59,843
Investment income	19,636	32,359	17,820	21,138
	789,698	762,274	746,648	728,631
EXPENSE				
Salaries & Benefits	465,356	438,037	424,061	412,948
Materials, supplies & services, travel, cost of goods sold, maintenance & repairs	177,865	173,117	195,392	158,776
Amortization of capital assets	80,877	66,654	78,897	79,277
Utilities	22,930	24,294	23,718	21,280
Scholarships, grants and awards	38,287	37,578	30,152	33,640
Financing	3,059	1,627	2,676	3,704
	788,374	741,307	754,896	709,625
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSE	$ 1,324	$ 20,967	$ (8,248)	$ 19,006

Note 18 Pledges

Outstanding pledges at March 31, 2006 are $57,153 (2005 - $23,870) and have not been recorded as accounts receivable. These pledges are expected to be honored over the next several years.

Note 19 Commitments and Contingencies

(a) As at March 31, 2006 the University has contractual commitments of $28,555 (2005 - $56,032) for capital projects.

(b) The University is a defendant in a number of legal proceedings. While the ultimate outcome of these proceedings cannot be reasonably estimated at this time, it is the opinion of the University and its legal counsel that the resolution of these claims will not have a material effect on the financial position or the results of operations of the University. Any loss that may result from these proceedings will be accounted for in the period in which the settlement occurs. Administration has concluded that none of the claims meet the criteria for being recorded under GAAP.

(c) The University is one of the members of CURIE, the Canadian Universities Reciprocal Insurance Exchange, a self-insurance reciprocal established to share the insurable property, liability and errors and omissions risk of member universities. The projected cost of claims against the exchange is based on actuarial projections and is funded through the members' premiums. As at December 31, 2005 CURIE had a surplus of $11,175 (2004 - $5,995) of which the University's pro-rata share is approximately 6.29% (2004 – 6.86%) on an ongoing basis.

(d) The University's commitments for operating leases for the next five years are as follows: 2007 – $786; 2008 – $551; 2009 – $501; 2010 – $397; 2011 - $151.

(e) In order to manage its exposure to the volatility in the electrical industry, the Board of Governors entered into a three year contract (91.9% fixed, 8.1% floating) to fix its electrical cost at an average of approximately $0.085 per kilowatt hour, expiring on December 31, 2006. Using best estimates of future consumption levels, the costs incurred to December 31, 2006 when the contract expires are expected to be approximately $7.5 million.

Note 20 Related Party Transactions

(a) The University is a Provincial Corporation as all the members of the Board of Governors are appointed by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions between the University and the Province of Alberta are summarized as follows:

	2006	2005
Alberta Advanced Education:		
Operating grant	$ 236,410	$ 210,440
Access grants	10,938	14,010
Miscellaneous grants	29,603	7,030
Performance funding	1,992	2,593
Capital grants	15,315	15,959
Total Alberta Advanced Education grants	294,258	250,032
Other provincial departments and agencies	112,112	108,871
Total Government of Alberta grants received	406,370	358,903
Provincial grants deferred	(69,271)	(55,804)
Earned Government of Alberta grants	$ 337,099	$ 303,099

At March 31, 2006 the University had a receivable from the Province of Alberta of $5,211 (2005 - $5,064) and long-term liabilities of $NIL (2005 – $229).

(b) The Calgary Health Region and the Province of Alberta are related parties as the Region's board is appointed by the Minister of Health and Wellness. As the University and the Province of Alberta are related parties, the Calgary Health Region is a related party to the University. Transactions between the University and the Calgary Health Region are summarized as follows.

	2006	2005
The University of Calgary pays to the Calgary Health Region in the normal course of operations amounts related to physicians, research projects, studies and grants, programs, and support services.	$ 15,275	$ 10,093
The University of Calgary receives from the Calgary Health Region in the normal course of operations amounts related to salaries & benefits, utilities, materials, supplies, and overheads.	$ 23,404	20,953
Net receivable to the University of Calgary by the Calgary Health Region:	$ 2,701	$ 3,422

The University has entered into a lease agreement with the Region to lease 32 acres of land to the Region for the site of the new Alberta Children's Hospital. The University also leases land to the Region for a parkade at the Foothills Medical Centre.

Effective September 2003 the University and the Calgary Health Region entered into a 25-year agreement for the Region to lease space in the University Research Centre Building. This lease has been accounted for as a capital lease. At March 31, 2006, the carrying value of the lease receivable is $15,585 (2005 – $15,739). During the year the University received $1,318 in lease payments (2005 – $1,318), $1,165 of which was recognized as interest income (2005 – $1,176).

(c) The University of Calgary Foundation (1999) is a private foundation, which operates to receive gifts and donations and to periodically provide grants to the University. During the year, the University received grants from the Foundation totaling $532 (2005 - $118). At March 31, 2006 the University was holding $279 on behalf of the Foundation (2005 - $681).

(d) The University of Calgary Medical Group (UCMG) is a not-for-profit organization that provides billing services to the members of UCMG in accordance with an Agency Agreement and a Member Agreement. These agreements govern the activities of the group such as billings, collections and accounting services. Effective January 1, 2001, a clinical service levy, based on percentages of individual member's medical revenue is paid to the University of Calgary.

(e) The McMahon Stadium Society is incorporated under the Societies Act as a not-for-profit organization. It operates to improve and manage the McMahon Stadium together with its facilities for sports, recreation and other useful purposes. The University of Calgary owns the stadium land and facilities and leases it to the society for one dollar a year. The current lease agreement expires April 30, 2010. During the year, the University of Calgary paid $93 (2005 - $87) to the McMahon Stadium Society for utilities and supplemental costs incurred as a result of the University's use of the facilities.

(f) The University has a one-third joint venture interest in the Campus Alberta: Graduate Program in Counseling. The University, along with Athabasca University and the University of Lethbridge formed the joint venture to develop and deliver a collaborative Alberta Graduate Counseling Program. These transactions are entered into on the same business terms as with non-related parties and are recorded at these fair value amounts. The University's share of revenue and expenses has been recorded using the equity method of accounting. The University's share of joint venture earning for the year is $25 (2005 - $74). The University's equity in the joint venture at March 31, 2006 is $317 (2005 - $291).

(g) In 2006 and 2005, the University participated in offering certain courses with other public colleges, universities, and institutes. The revenues and expenses incurred for these courses have been included in the consolidated statement of revenue, expenses and unrestricted net assets, but have not been separately quantified.

Note 21 Comparative Figures

Certain 2005 figures have been reclassified to conform to the presentation adopted in the 2006 financial statements

Note 22 Subsequent Events

On April 13, 2006 the University received loan proceeds of $5,950 from the Alberta Capital Finance Authority (ACFA). The loan is for a period of 25 years, payable semiannually, at a fixed rate of 4.935%, due April 13, 2031. The loan proceeds will be used to offset unrestricted internal funds that were originally used to fund a portion of the construction of the Health Research Innovation Centre.

Note 23 Approval of Financial Statements

These financial statements have been approved by the Board of Governors following the recommendation of the Audit Committee.

THE ARCTIC INSTITUTE OF NORTH AMERICA

Financial Statements

For the year ended March 31, 2006

Auditor's Report

Financial Statements:

- Statement of Financial Position
- Statement of Revenue and Expense
- Statement of Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements
- Arctic Journal Statement of Operations

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of the University of Calgary

I have audited the statement of financial position of the Arctic Institute of North America as at March 31, 2006 and the statements of revenue and expense, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Institute's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Arctic Institute of North America as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
August 4, 2006

THE ARCTIC INSTITUTE OF NORTH AMERICA
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2006

	2006	2005
ASSETS		
Current assets		
Due from University of Calgary	$ 787,282	$ 832,357
Petty cash	400	400
Accounts receivable	97,933	71,427
Inventory	14,332	15,607
Prepaid expenses	1,740	2,982
	901,687	922,773
Investments (Note 3)	1,188,646	1,105,235
Capital assets and collections (Note 4)	600,365	587,215
	$2,690,698	$2,615,223
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued charges	$ 89,216	$ 68,083
Deferred revenue	63,641	84,633
Deferred contributions (Note 5)	115,149	116,390
	268,006	269,106
Unamortized deferred capital contributions (Note 6)	79,852	55,196
Net assets		
Unrestricted net assets	1,255,802	1,193,102
Investment in capital assets and collections	520,513	532,019
Internally restricted net assets (Note 7)	133,249	163,942
Endowments (Note 8)	433,276	401,858
	2,342,840	2,290,921
	$2,690,698	$2,615,223

Signed on behalf of the Board

Chair of the Board

Executive Director

The accompanying notes are part of these financial statements

THE ARCTIC INSTITUTE OF NORTH AMERICA
STATEMENT OF REVENUE AND EXPENSE
FOR THE YEAR ENDED MARCH 31, 2006

	2006	2005
Revenue		
University of Calgary and Government grants	$407,592	$382,013
Sales of services and products	361,562	438,650
Donations and other grants	207,283	249,228
Investment Income (Note 9)	144,770	77,955
Earned capital contributions	4,621	6,094
	1,125,828	1,153,940
Expense		
Salaries (Note 11)	641,930	549,185
Benefits (Note 11)	101,566	73,499
Materials	283,870	337,750
Grants, scholarships and awards	22,135	27,600
Amortization of capital assets	20,299	22,188
Travel and meeting	24,021	29,776
	1,093,821	1,039,998
Excess of revenue over expense	$ 32,007	$113,942

The accompanying notes are part of these financial statements

THE ARCTIC INSTITUTE OF NORTH AMERICA
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2006

	2006					2005
	Internally Restricted	Unrestricted	Investment in Capital Assets and Collections	Restricted for Endowment Purposes	Total	Total
Net assets beginning of year	$163,942	$1,193,102	$532,019	$401,858	$2,290,921	$2,174,479
Excess of revenue over expense	-	32,007	-	-	32,007	113,942
Transfer to (from) internally restricted	(30,693)	30,693	-	-	-	-
Gain on endowments-external	-	-	-	19,142	19,142	-
Gain on endowments-internal	-	(11,506)	-	11,506	-	-
Acquisition of internally funded capital assets	-	(3,325)	3,325	-	-	-
Acquisition of non-amortizable capital assets	-	(847)	847	-	-	2,500
Amortization of internally funded capital assets	-	15,678	(15,678)	-	-	-
Contribution to endowment	-	-	-	770	770	-
Net assets end of year	$133,249	$1,255,802	$520,513	$433,276	$2,342,840	$2,290,921

The accompanying notes are part of these financial statements

THE ARCTIC INSTITUTE OF NORTH AMERICA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2006

	2006	2005
Cash provided from (used in):		
Operating activities:		
Excess of revenue over expense	$ 32,007	$113,942
Items not affecting cash flow:		
Amortization of capital assets	20,299	22,188
Amortization of deferred capital contributions	(4,621)	(6,094)
(Gain) on non-endowed and internally restricted endowment investments	(63,500)	(24,687)
Net change in non-cash working capital	(25,089)	78,816
Cash (applied to) generated from operating activities	(40,904)	184,165
Investing activities:		
Purchase of capital assets, net	(33,449)	(52,130)
Contribution of non-amortizable assets	-	2,500
Increase in long-term investments, net	(769)	(103,663)
(Gain) on investments related to externally restricted endowments	(19,142)	(7,583)
Cash applied to investing activities	(53,360)	(160,876)
Financing activities:		
Endowment contributions	770	-
Capital contributions	29,277	30,905
Gain on externally restricted endowments	19,142	-
Cash generated through financing activities	49,189	30,905
(Decrease) Increase in cash and cash equivalents	(45,075)	54,194
Due from University of Calgary at beginning of year	832,357	778,163
Due from University of Calgary at end of year	$787,282	$832,357

	2006	2005
Net change in non-cash working capital:		
Accounts receivable decrease (increase)	$ (26,506)	$18,526
Inventory decrease	1,275	3,605
Prepaid expenses decrease	1,242	6,506
Accounts payable increase	21,133	9,659
Deferred revenue increase (decrease)	(20,992)	4,423
Deferred contributions increase (decrease)	(1,241)	36,097
	$ (25,089)	$ 78,816

The accompanying notes are part of these financial statements

THE ARCTIC INSTITUTE OF NORTH AMERICA
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2006

Note 1 Authority and Purpose

The Arctic Institute of North America (the "Institute") operates under authority of an Act of the Federal Parliament (9 – 10 George VI, Chapter 45). Its objective is to initiate, encourage and support northern research and to advance the study of arctic conditions and problems.

Under a 1979 agreement between the Institute and the University of Calgary, the Institute vested its control and management with the University.

The Institute is a charitable organization and is exempt from payment of income tax under the Income Tax Act of Canada.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) *General*

The financial statements of the Institute have been prepared in accordance with Canadian generally accepted accounting principles. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates which may vary from actual results. Such estimates have been made using judgments determined by the Institute's administration. In administration's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting polices summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

(b) *Revenue Recognition*

Operating grants are recognized as revenue in the period receivable. If a portion of a grant relates to a future period, that portion is deferred and recognized in the subsequent period.

Unrestricted cash donations are recognized as revenue when they are received. Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for the purposes designated by external parties. Any externally restricted contributions containing stipulations that the amounts should be retained as net assets or that the contributions should not be expended are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to be used to acquire non-amortizable property such as collections.

Externally restricted capital grants are recorded as deferred capital contributions until the amount is invested in capital assets. Amounts invested representing funded capital assets are then transferred to unamortized deferred capital contributions. Unamortized deferred capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded. The related portion of amortization expense and the deferred capital contribution revenue are matched to indicate that the related amortization expense has been funded.

Amounts received for the sales of services and products are classified as unearned and recognized as revenue at the time the products are delivered or the services are substantially provided.

(c) Inventory

Inventory of publications held for resale is valued at the lower of cost and net realizable value. Cost is determined using the first in, first out basis.

(d) Due from University of Calgary

Due from University of Calgary represents the Institute's cash held by the University of Calgary.

(e) Investments

Investments consist of units held in The University of Calgary pool of index funds. Cash and cash equivalents and investments are held in trust by the Institute's parent, The University of Calgary. Investments are recorded at market value. Market value is determined based on the current market price of the underlying asset. Changes in market value from one period to the next are included in the investment income (loss) for the period (Note 9). Such investment income (loss) is included in revenue in accordance with the revenue recognition policy (Note 2b).

(f) Capital Assets and Collections

Capital assets and collections are recorded at cost as acquired. Gifts of capital assets and collections in kind are capitalized at fair value when a fair value can be reasonably determined. Capital assets are amortized on a straight-line basis over the average useful lives of the capital assets which are:

Buildings	30 years
Leasehold improvements	20 years
Furnishing and equipment	10 years
Vehicles	7 years
Other	5 years
Computer equipment	3 years

Collections are not amortized and include that portion of library assets considered to have permanent value and works of art, carvings, historic films, sound records and tape recordings which are held for educational and public exhibition purposes. If sold, collections are removed from the accounts at their book value and any proceeds from their sale are used to acquire other items to be added to the collections. Construction in progress is not amortized until construction is substantially complete and assets are ready for productive use.

(g) Employee Future Benefits

The Institute participates in the University Academic and the Public Service Pension Plans. These pension plans are multi-employer defined benefit pension plans that provide pensions for the Institute's participating employees, based on years of service and earnings.

Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates which are expected to provide for benefits payable under the respective pension plan. The Institute's portion of the pension plans' deficit or surplus is not recorded by the Institute.

(h) *Credit, Interest Rate and Market Risk*

The Institute's accounts receivable are due from a diverse group of customers and are subject to normal credit risks.

The interest rate risk is the risk to the Institute's earnings that arises from the fluctuations in interest rates and the degree of volatility of these rates.

The market risk is the risk to the Institute's earnings that arises from the fluctuations in interest rates and the degree of volatility of these rates.

(i) *Financial Instruments*

The carrying value of the financial assets and financial liabilities are considered fair value unless otherwise disclosed.

Note 3 Investments

Periodically, the Institute's Board directs the University to transfer cash equivalents into long-term investments. The University manages the Institute's investments on behalf of the Institute. The Institute follows the University investment policy. Investments include instruments in the following funds:

		2006		2005
	Annual Market Yield		Annual Market Yield	
Money market investments		$ 2,013		$ -
S&P/TSX index	28.43%	-	14.02%	148,065
Bond index	4.85%	313,769	5.04%	321,217
International index	19.52%	248,713	6.62%	223,187
S&P 500 index	7.75%	199,353	-1.74%	198,463
Canadian equities	26.57%	424,798	16.25%	214,303
		$1,188,646		$1,105,235

Note 4 Capital Assets and Collections

		2006		2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings and leasehold improvements	$105,017	$ 82,057	$ 22,960	$ 24,076
Furnishings and equipment	256,891	214,594	42,297	58,155
Collections	495,967	-	495,967	495,120
Construction in progress	39,141	-	39,141	9,864
	$897,016	$296,651	$600,365	$587,215

Note 5 Deferred Contributions

Deferred contributions represent unspent contributions externally restricted for non-capital purposes. Changes in the deferred contribution balances are as follows:

	2006	2005
Contributions received during the year:		
Grants	$ 97,975	$ 26,020
Sales	9,580	4,235
Donations and other grants	42,405	98,553
Investment income	16,844	17,261
	166,804	146,069
Transferred to revenue:		
Grants	92,092	10,591
Sales	3,764	10,271
Donations and other grants	31,756	53,517
Investment income	11,156	4,688
	138,768	79,067
Transferred to unamortized deferred capital contributions	29,277	30,905
(Decrease) Increase during the year	(1,241)	36,097
Balance beginning of year	116,390	80,293
Balance end of year	$115,149	$116,390
The balance is restricted for:		
Scholarships	23,025	17,337
Research	92,124	99,053
	$115,149	$116,390

Note 6 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the externally funded portion of capital assets, which will be recognized as revenue in future periods. Changes in the unamortized deferred capital contributions balance are as follows:

	2006	2005
Transfer from Deferred Contributions (note 5)	$29,277	$30,905
Amortized to revenue	(4,621)	(6,094)
Increase during the year	24,656	24,811
Balance, beginning of year	55,196	30,385
Balance, end of year	$79,852	$55,196

Note 7 Internally Restricted Net Assets

The Board of Directors has designated funds for specific purposes. These are for:

	2006	2005
Kluane Field Station Refurbishment	$ 30,000	$ 30,000
Research Associates Development Fund	1,164	1,164
Kluane Lake Research Station - Maintenance	10,000	10,000
ASTIS Restricted Funds	39,242	70,378
Publications	52,843	52,400
	$133,249	$163,942

Note 8 Endowments

Endowments consist of restricted contributions where the principal is required to be maintained in perpetuity (externally restricted) as well as internal allocations by the Board of Directors (internally restricted). The investment income generated from endowments must be used in accordance with the purpose established by the donors or Board of Directors.

	Balance March 31 2005	Contributions Received	Investment Gain	Balance March 31 2006
Externally Restricted:				
Jennifer Robinson Memorial Endowment	$ 66,471	$ -	$ 5,117	$ 71,588
Lorraine Allison Scholarship	30,886	-	2,378	33,264
Jim Bourque Scholarship Fund	20,615	-	1,588	22,203
Budget Calgary Educational Award	23,082	-	1,793	24,875
BP Canada Scholarship	65,107	-	4,998	70,105
Gerald Thompson Scholarship	42,433	-	3,268	45,701
	248,594	-	19,142	267,736
Internally Restricted:				
Life Members Endowment Fund	153,264	770	11,506	165,540
	$401,858	$770	$30,648	$433,276

Note 9 Investment Income

	2006	2005
Restricted investment income on resources held for endowments	$ 16,844	$ 9,678
Non-restricted investment income	70,114	48,580
Total net realized investment income	86,958	58,258
Gain on unrestricted investments	51,994	20,130
Gain on externally restricted endowments	19,142	7,583
Gain on internally restricted endowments	11,506	4,557
	169,600	90,528
Net transfer (to) from deferred contributions	(5,688)	(12,573)
Amounts credited directly to endowment principal	(19,142)	-
	$144,770	$77,955

Note 10 Related Party Transactions

(a) The Institute received operating grants of $305,600 (2005 - $274,134) from The University of Calgary. In addition, accommodation, basic office furnishings and certain other administrative and operating costs were borne by the University. These services are valued at $42,994 (2005 - $55,911), and are included in donations and other grants, and materials, supplies and services in these financial statements.

(b) During the year, the Institute administered a number of grants on behalf of The University of Calgary. These grants totaling $27,000 (2005 - $32,765) and related expenditures of $27,000 (2005 - $32,765) are not reflected in these financial statements but are reported in the financial statements of the University.

Note 11 Salaries and Benefits

In accordance with Province of Alberta Treasury Board Directive 12/98, amended on July 6, 2004, the salaries and benefits of the Institute's senior decision management group are disclosed as follows:

	2006				2005
	Base Salary[1]	Other Cash Benefits[2]	Other Non-Cash Benefits[3]	Total	Total
Governance [4]					
Chair of the Board of Directors	$ -	$ -	$ -	$ -	$ -
Other members of the Board of Directors	-	-	-	-	-
Executive					
Executive Director [5]	110,430	12,000	21,156	143,586	46,864
	$110,430	$ 12,000	$21,156	$143,586	$46,864

(1) *Base salary*
Base salary includes regular base pay.

(2) *Other cash benefits*
Other cash benefits include honorariums and research allowances.

(3) *Other non-cash benefits*
Other non-cash benefits include the Institute's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, accidental disability and dismemberment insurance, long and short term disability plan, and worker's compensation.

(4) *Governance*
The Board of Directors do not receive remuneration for their participation on the Board.

(5) *Executive Director*
During the 2005 fiscal year, the Executive Director resigned effective September 1, 2004. The position was vacant until January 1, 2005. An Acting Director filled the position from January 17, 2005 to March 31, 2005. On April 1, 2005, the Executive Director position was filled.

Note 12 Pension Costs

The Pension expense recorded in these financial statements is equivalent to the Institute's annual contributions payable of $35,264 for the year ended March 31, 2006 (2005 - $23,242).

Note 13 Budget

The Institute's Board of Directors approved the budget on January 28, 2006.

	2006		2005	
Revenue	Budget	Actual	Budget	Actual
University of Calgary and Government grants	$ 381,655	$407,592	$455,900	$382,013
Sales of services and products	371,287	361,562	330,229	438,650
Donations and other grants	255,418	207,283	215,104	249,228
Investment income	57,231	144,770	46,774	77,955
Earned capital contributions	-	4,621	-	6,094
	1,065,591	1,125,828	1,048,007	1,153,940
Expense				
Salaries	630,984	641,930	554,935	549,185
Benefits	87,412	101,566	83,150	73,499
Materials supplies and services	400,941	283,870	330,677	337,750
Grants, scholarships and awards	18,000	22,135	18,000	27,600
Amortization of capital assets	21,300	20,299	21,300	22,188
Travel and meeting	26,500	24,021	23,500	29,776
	1,185,137	1,093,821	1,031,562	1,039,998
(Deficiency) excess of revenue over expense	$(119,546)	$ 32,007	$ 16,445	$113,942

Note 14 Future Removal and Site Renovations

The buildings that the Institute owns are located on leased land in the Yukon. The lease between the Government of the Yukon and the Institute is for 96 hectares and expires August 31, 2012.

Under the terms of the lease agreement between the Institute and the Yukon Government, the Institute is required to remove any buildings placed on the land during the lease term.

The cost to remove buildings and restore the land has not been recorded, as the amount is not estimable at this time.

Note 15 Funds Held on Behalf of Others

The Institute provides administrative support and holds certain funds on behalf of others. The balance as at March 31, 2006 is $39,874 (2005 - $48,895).

Note 16 Comparative Figures

Certain prior year's figures were reclassified to conform to current year presentation.

Note 17 Approval of Financial Statements

These financial statements have been approved by the Board of Directors of the Institute.

THE ARCTIC INSTITUTE OF NORTH AMERICA
ARCTIC JOURNAL
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2006

	2006	2005
Revenue		
Grants	$ 9,900	$11,335
Memberships and subscriptions	78,228	80,637
Back issues, page charges and reprints	32,724	35,566
Donation	6,000	12,908
Investment income	10,089	5,751
Total revenue	136,941	146,197
Expense		
Production and distribution	76,104	67,707
Salaries and benefits	69,332	65,957
Office	3,954	5,434
Total expenditure before amortization	149,390	139,098
Amortization of capital assets	1,297	1,297
Total expenditure	150,687	140,395
(Deficiency) excess of revenue over expense	$(13,746)	$ 5,802

The revenue and expense of the Arctic Journal are included as part of the revenue and expense on the Statement of Revenue and Expense

UNIVERSITY TECHNOLOGIES GROUP

Financial Statements

For the year ended March 31, 2006

Auditor's Report

Financial Statements:

- Combined Balance Sheet
- Combined Statement of Retained Earnings (Deficit)
- Combined Statement of Operations
- Combined Statement of Cash Flows
- Notes to Combined Financial Statements
- Combined Schedule of Net Licensing and Royalty Revenue
- Combined Schedule of Net Product Development Revenue (Expense)
- Combined Schedule of Net Sales Revenue
- Combined Schedule of Personnel Costs

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Shareholder of the University Technologies International Inc. and the Partners of UTI Limited Partnership.

I have audited the combined balance sheet of University Technologies Group (previously University Technologies International Inc.) as at March 31, 2006 and the combined statements of operations and retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Group's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these combined financial statements present fairly, in all material respects, the financial position of the Group as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
June 2, 2006

University Technologies Group
(previously University Technologies International Inc.)
Combined Balance Sheet
As at March 31

	2006	2005
Assets		
Current assets		
Cash and cash equivalents	$ 3,572,441	$ 3,668,365
Accounts receivable	989,370	478,584
Income tax refund receivable	6,093	92,999
Investment tax credit receivable	-	6,923
Prepaid expenses	25,945	14,142
Inventory *(note 4)*	72,469	78,804
Restricted cash and cash equivalents *(note 5)*	305,728	164,496
	4,972,046	4,504,313
Investments *(note 6)*	114	24,556
Property, plant and equipment *(note 7)*	119,403	70,662
Intangible assets *(note 8)*	1,065,492	1,007,962
	$ 6,157,055	$ 5,607,493
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 738,471	$ 492,455
Deferred revenue *(note 5)*	305,728	164,496
Interest payable on note *(note 11)*	540,000	-
	1,584,199	656,951
Long-term debt *(note 10)*	714,492	386,785
Long-term note payable *(note 11)*	9,000,000	-
Non controlling interest in subsidiary companies	40,653	105,955
	9,755,145	492,740
Shareholder's Equity (deficiency)		
Share capital *(note 12)*		
Common shares	1	1
Class "B" preferred shares	-	670,159
Contributed surplus	-	1,974,197
Retained earnings (deficit)	(5,182,290)	1,813,445
	(5,182,289)	4,457,802
	$ 6,157,055	$ 5,607,493

Commitments and contingency (*Note 13*)

On behalf of the Board of Directors

Director

Director

The accompanying notes are part of these combined financial statements.

University Technologies Group
(previously University Technologies International Inc.)
Combined Statement of Retained Earnings (Deficit)
For the years ended March 31

	2006	2005
Balance, Beginning of Year	$ 1,813,445	$ 2,136,086
Elimination of retained earnings upon reorganization	(1,813,445)	-
Excess of consideration paid in excess of historical book values *(note 1)*	(4,542,197)	-
Loss for the year	(640,093)	(322,641)
Balance, End of Year	$ (5,182,290)	$ 1,813,445

The accompanying notes are part of these combined financial statements.

University Technologies Group

(previously University Technologies International Inc.)
Combined Statement of Operations
For the years ended March 31

	2006		2005
	Budget	Actual	Actual
Revenue			
Net licensing and royalty revenue (Schedule 1)	$ 1,872,275	**$ 1,785,450**	$ 1,647,789
Client contract revenue	150,000	**75,000**	75,000
Net product development revenue (expense) (Schedule 2)	(40,412)	**(31,788)**	(16,795)
Net sales revenue (Schedule 3)	210,222	**144,196**	72,687
Other revenue (expense)	-	**7,668**	(1,103)
	2,192,085	**1,980,526**	1,777,578
Expenses			
Personnel (Schedule 4) (*note 15*)	2,138,592	**1,573,183**	1,367,598
Operating	1,187,380	**829,454**	871,648
Interest	-	**543,745**	500
Amortization	250,000	**273,686**	267,049
Write down of patents	60,000	**135,655**	181,655
Other	172,650	**138,871**	98,831
	3,808,622	**3,494,594**	2,787,281
Expense reimbursements *(note 16)*	(714,044)	**(242,773)**	(745,978)
	3,094,578	**3,251,821**	2,041,303
Earnings (loss) before the following	(902,493)	**(1,271,295)**	(263,725)
Gain on sale of investments	250,000	**640,989**	102,048
Share of income of equity investments	-	**-**	54
Interest income	40,000	**84,299**	79,522
Foreign exchange loss	-	**(25,325)**	(54,474)
Write down of investments	-	**-**	(63,001)
	290,000	**699,963**	64,149
Earnings (loss) before income taxes	(612,493)	**(571,332)**	(199,576)
Provision for current income taxes	-	**36,063**	18,687
Earnings (loss) before non controlling interest	(612,493)	**(607,395)**	(218,263)
Non controlling interest in (earnings) loss of subsidiary companies	-	**(32,698)**	(104,378)
Loss for the year	$ (612,493)	**$ (640,093)**	$ (322,641)

The accompanying notes are part of these combined financial statements.

University Technologies Group
(previously University Technologies International Inc.)
Combined Statement of Cash Flows
For the years ended March 31

	2006	2005
Cash provided by (used in)		
Operating activities		
Net loss for the year	$ (640,093)	$ (322,641)
Add back non-cash items		
Amortization	273,686	267,049
Gain on sale of investments	(640,989)	(102,048)
Non controlling interest	32,698	104,378
Write-down of patents	135,655	181,655
Write-down of investments	-	63,001
Investment in equity interest	-	(54)
	(839,043)	191,340
Net change in non-cash working capital and restricted cash balances related to operations *(note 17)*	(176,407)	(224,492)
	(1,015,450)	(33,152)
Investing activities		
Purchase of property, plant and equipment	(111,092)	(48,859)
Purchase of intangible assets	(530,725)	(504,456)
Cost recoveries on intangible assets	126,205	167,245
Change in investments	3	-
Proceeds on sale of investments	665,428	162,247
	149,819	(223,823)
Financing activities		
Dividends to non-controlling interest	(98,000)	(122,500)
Increase in (repayment of) long-term debt	867,707	154,047
	769,707	31,547
Decrease in cash and cash equivalents	(95,924)	(225,428)
Cash and cash equivalents, beginning of year	3,668,365	3,893,793
Cash and cash equivalents, end of year	$ 3,572,441	$ 3,668,365

The accompanying notes are part of these combined financial statements.

University Technologies Group

(previously University Technologies International Inc.)

Combined Statement of Cash Flows - continued

For the years ended March 31

	2006	2005
Cash and cash equivalents are comprised of		
Cash in banks	$ 1,542,788	$ 501,914
Less: restricted cash	(305,728)	(164,496)
Bankers' acceptances	2,335,381	3,330,947
	$ 3,572,441	$ 3,668,365
Supplemental Information		
Cash taxes paid	$ 5,528	$ 113,324
Cash interest received	84,299	72,714
Cash interest paid	543,745	500
Non-Cash Transaction		
Note payable issued on reorganization *(Note 1)*	$ 9,000,000	

The accompanying notes are part of these combined financial statements.

1. Nature of operations and reorganization

On April 1, 2005, the original University Technologies International Inc. ("old UTI") underwent a reorganization whereby the University of Calgary transferred its shares in the old UTI to 6325041 Canada Ltd. (the "Numbered Co.") in exchange for a promissory note of $9,000,000 and a nominal number of shares of the Numbered Co. Old UTI was then amalgamated with Numbered Co. to form a new University Technologies International Inc. ("UTI" or the "Company"). UTI then became the general partner and manager of UTI Limited Partnership ("UTI LP" or the "Partnership"). UTI contributed all of its assets to the Partnership, as a capital contribution, at their fair market value of $9,000,000, in exchange for one Class A Preferred Partnership Unit and the assumption of its liabilities by the Partnership. A Trust, wholly owned by the University of Calgary, purchased the Class B Preferred partnership units for $100.

The contribution of the net assets has been accounted for, by the Partnership, using the carrying amounts of the assets contributed and the liabilities assumed in the accounts of UTI. The assets and liabilities contributed at Historical Book Values are as follows:

Cash and cash equivalents	$3,668,365
Inventory	78,804
Other current assets	757,145
Investments	24,556
Property, plant and equipment	70,662
Intangible assets	1,007,962
Current liabilities	(656,951)
Long-term liabilities	(492,740)
Net Assets contributed	4,457,803
Consideration paid	9,000,000
Excess of consideration paid over Historical Book Values	$4,542,197

In accordance with generally accepted accounting principles for related party transactions, whereby the ownership interest has not changed, the excess of the consideration paid over the Historical Book Values of the assets has been accounted for as a reduction of unitholders' equity.

The combined entity is a licensing, commercialization, and intellectual property management company.

2. Basis of presentation

These financial statements are prepared on a combined basis as the entities being combined are under common control and managed by a common owner. These statements include the accounts of the Company, UTI LP and UTI LP's wholly owned subsidiaries University Technologies International Venture Management Inc., University Technologies International Business Ventures Inc., CytoStore Inc. and its 51 % owned subsidiaries NeuroSpheres Ltd. and NeuroSpheres Holdings Ltd. ("NHL"). The combined entities are referred to as University Technologies Group ("Group").The combined balances are presented after eliminating the inter-company transactions and balances.

Included in the combined financial statements are 2005 comparative amounts. These amounts are the audited financial statement amounts from old UTI.

3. Significant accounting policies

These combined financial statements have been prepared in accordance with Canadian generally accepted accounting principles the more significant of which are as follows:

a) Revenue recognition

Licensing and client contract revenues are recognized when persuasive evidence of an arrangement exists, collection of the fee is probable and there are no future obligations for performance. Client contract revenue is recorded as services are provided.

Royalty revenues are recognized when earned, based on product sales reported by licensees.

Product development revenues are deferred and recognized as related product development expenses are incurred. Product development revenues include overhead recoveries.

Sales revenue is recorded when the product has been sold, delivery has occurred, and collection is reasonably assured.

b) Investments in significantly influenced companies

The Group accounts for its investments in AB Biopharma Inc. and ACT Pharma Inc., entities over which the Group has significant influence, by the equity method. Under the equity method, the Group's investments are recorded initially at cost, increased by the net earnings of the investee entity, decreased by net losses of the investee entity, and decreased by dividends received from the investee entity and adjustments required to recognize other changes in the Group's equity interest. Net earnings (losses) are recorded based on each investee corporation's most recent fiscal year end.

c) Other long-term investments

Other long-term investments, including marketable equity securities, are accounted for at cost unless it is assessed that there has been an "other than temporary" decline in value.

d) Property, plant and equipment

Property, plant and equipment are initially recorded at cost and amortization is provided over the estimated useful lives of the property, plant and equipment on a straight-line basis as follows:

Office furniture and artwork	10 to 15 years
Office equipment and systems	3 years
Computer hardware	2 years
Website	3 years
Promotional Equipment	5 years
Leasehold improvements	Remaining term of 5 year lease

Management assesses the carrying amount of property and equipment for impairment when facts and circumstances indicate impairment has occurred and an impairment loss is recognized when the carrying amount exceeds fair value. No impairment loss has been recorded to date.

e) Intangible assets

Computer software is amortized on a straight-line basis over its estimated useful life of 2 years.

Patents are recorded at cost and include acquisition and maintenance costs. Patent costs are amortized on a straight-line basis over 10 years. The carrying value of patents related to a project is limited to the estimated future net cash flows from the project. Patent costs in excess of estimated future net cash flows are written off.

f) Investment tax credits

Investment tax credits are recognized when there is reasonable assurance of their recovery using the cost reduction method. Investment tax credits are subject to the customary assessments by the pertinent tax authorities. Adjustments required, if any, are reflected in the year when such assessments are received.

g) Income taxes

Income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determinable based on the tax laws and rates that are anticipated to apply in the period of realization. A valuation allowance is recorded to the extent there is uncertainty regarding realization of future tax assets.

h) Foreign currency translation

Transactions denominated in foreign currencies are translated using the temporal method. Under this method, monetary assets and liabilities are translated using the rate of exchange in effect at the balance sheet date, whereas non-monetary assets and liabilities are translated at the rate of exchange in effect on the date of the transaction. Revenues and expenses are translated at monthly average rates prevailing throughout the period, except for amortization, which is translated at exchange rates prevailing when the related assets were acquired. Exchange gains and losses resulting from translation are included in the statement of earnings and retained earnings.

i) Government assistance

Government assistance related to current expenses is recorded as a reduction of expenses when the related expenditures are incurred. Government assistance related to capital expenditures is reflected as a reduction in the cost of such assets. When cash is received in advance of the related expenditures, the grant is recorded as deferred revenue and the cash is separately disclosed as restricted cash.

j) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made for recoverability of patent costs and investment valuations.

k) Cash and cash equivalents

Cash and cash equivalents consists of cash on deposit and highly liquid short-term interest bearing securities which mature within three months or less of the date of purchase.

l) Inventory

The Group changed its inventory costing method from first-in, first-out to weighted average effective April 1, 2005. Due to the limited inventory amount, prior year amounts have not been restated for comparative purposes.

4. Inventory

Inventory is comprised of:

	2006	2005
UTI LP – Dataloggers & Cables	$ 39,542	$ 45,512
CytoStore – Reagents	32,927	33,292
	$ 72,469	$ 78,804

5. Restricted cash and cash equivalents

Certain cash and cash equivalents balances amounting to $305,728 (2005 - $164,496) are not available to pay ordinary operating expenses of the Group.

- $241,549 (2005 - $164,496) is held to pay for research and development expenses as provided by the terms of the agreements between the Group and firms sponsoring such activities.
- $64,179 is held to pay for costs associated with the Southern Alberta Intellectual Property Network as funded by a NSERC grant received during that year.

6. Investments

	2006	2005
ACT Pharma Inc. – 49.99% of the issued and outstanding shares		
Equity investment at beginning of year	$ 108	$ 54
Share of income (loss)	-	54
	108	108
Other investments at cost		
Calgary Scientific Inc.	1	-
Capitol Energy Resources Inc. (6)	-	1
Cell-Loc Location Technologies Inc. (6)	-	1,259
Helix Biomedix Inc. (1)	1	1
Membrane Reactor Technologies Inc. (1)	-	-
NYVARA Pharmaceutical Inc. (1)	1	-
Oncolytics Biotech Inc. (6)	-	23,184
On Stream Technologies Inc. (1)	1	1
Quorex Pharmaceuticals, Inc. (5)	-	-
ReNeuron Group PLC (1)	1	-
SalPep Inc.	1	1
SemBioSys Genetics Inc. (2)	-	-
StemCells Inc. (3)	-	-
Sonexis, Inc. (formerly eYaK, Inc.) (4)	-	-
Wi-Lan Inc. (6)	-	1
	6	24,448
	$ 114	$ 24,556

(1) Investments are related to non-monetary exchanges of shares in each company for licenses. The fair value of each transaction was nominal at the exchange date.

[2] SemBioSys Genetics Inc. became a publicly traded company during 2005 and is no longer accounted for using the equity method.

[3] During 2005, old UTI sold 100% of its interest in StemCells Inc.

[4] During 2005, Sonexis, Inc. went through a share reorganization and old UTI's interest in Sonexis, Inc. was eliminated. The Group has written off its investment in Sonexis.

[5] During 2005, Quorex Pharmaceuticals, Inc. filed a Certificate of Dissolution with the State of Delaware and wound up its affairs. Old UTI wrote off its investment in Quorex Pharmaceuticals, Inc.

[6] During 2006, the Group sold 100% of its interest in Capitol Energy Resources Inc., Cell-Loc Location Technologies Inc., Oncolytics Biotech Inc., and Wi-Lan Inc.

(a) Other equity investments

The Group also holds an equity investment of 49.99% in AB Biopharma Inc. The current value of the equity in this entity is nil.

(b) Other investments at market

Shares held in public companies and their related market values at the year-end are as follows:

	2006		2005	
	Number of shares	**Market value**	Number of shares	Market value
Capitol Energy Resources	-	-	5,500	$ 5,610
Cell-Loc Location Technologies Inc.	-	-	11,000	1,650
Helix Biomedix Inc.	4,050	$ 3,848	4,050	6,278
Oncolytics Biotech Inc.	-	-	13,800	66,930
ReNeuron Group PLC	103,727	$ 33,148	-	-
SemBioSys Genetics, Inc.(1)	1,233,464	$ 6,167,320	1,336,264	6,681,320
Wi-Lan Inc.	-	-	21,000	$ 20,580

(1) On March 31, 2005 old UTI assessed the fair market value of SemBioSys Genetics at the IPO price of $5.00, even though SemBioSys shares were trading at $6.50 at March 31, 2005, due to the limited marketability. The March 31, 2006 reported fair market value continues to reflect a discount from quoted fair market value due to limited marketability.

7. Property, plant and equipment

			2006
	Cost	Accumulated amortization	Net
Artwork	$ 3,239	$ 1,061	$ 2,178
Website	18,388	2,386	16,002
Promotional Equipment	1,730	57	1,673
Office equipment and systems	78,741	55,520	23,221
Office furniture	115,236	63,837	51,399
Computer hardware	123,906	107,581	16,325
Leasehold improvements	40,435	31,830	8,605
	$ 381,675	$ 262,272	$ 119,403

			2005
	Cost	Accumulated amortization	Net
Artwork	$ 3,239	$ 846	$ 2,393
Office equipment and systems	60,162	50,869	9,293
Office furniture	78,863	55,062	23,801
Computer hardware	100,109	79,247	20,862
Leasehold improvements	40,435	26,122	14,313
	$ 282,808	$ 212,146	$ 70,662

8. Intangible assets

			2006
	Cost	Accumulated amortization	Net
Computer software	$ 47,722	$ 32,004	$ 15,718
Patents	2,077,259	1,027,485	1,049,774
	$ 2,124,981	$ 1,059,489	$ 1,065,492

			2005
	Cost	Accumulated amortization	Net
Computer software	$ 99,212	$ 73,112	$ 26,100
Patents	2,182,808	1,200,946	981,862
	$ 2,282,020	$ 1,274,058	$ 1,007,962

During the year, patents with a net book value of $135,655 (2005 - $181,655) were written off.

9. Future Income taxes

The significant components of the Group's future income tax asset is summarized as follows:

	2006	2005
Property, plant and equipment	$ 50,933	$ 454,005
Non-capital loss carryforwards	845,403	450,848
Eligible Capital	122,924	123,202
Capital loss carryforwards	-	31,500
Future income tax asset	1,019,260	1,059,555
Less: Valuation Allowance	$ (1,019,260)	$ (1,059,555)
	$ -	$ -

The company has recorded a full valuation allowance against the future tax assets due to the uncertainty regarding recoverability.

Non-capital losses carryforwards will expire in the following years:
2014 - $100,603
2015 - $343,022
2016 - $401,778

Investment tax credits, in NeuroSpheres Inc., will expire in the following years:
2007 - $95,514
2008 - $420,161
2009 - $69,000
The Group has also recorded a valuation allowance against the future tax asset arising from this temporary difference due to the uncertainty regarding recoverability.

10. Long-term debt

At March 31, 2006, the Group's long-term debt included $223,175 (2005 - $232,738) received by NeuroSpheres through the Alberta Heritage Foundation for Medical Research (AHFMR) in accordance with an agreement dated November 3, 1993. The long-term debt also includes funds received by CytoStore of $391,317 (2005 – $154,047) through Western Economic Diversification Canada (WED), in accordance with an agreement dated March 22, 2005, and $100,000 (2005 – Nil) from AVAC Ltd. in accordance with an agreement dated December 21, 2005.

NeuroSpheres' debt is non-interest bearing and repayment is contingent upon NeuroSpheres' ability to generate gross sales of product and services. As sales are generated, the lesser of $100,000 and 5% of gross sales is to be paid to AHFMR on an annual basis until the principal debt of $223,175 (2005 - $232,738) plus an additional royalty of $250,000 is paid to AHFMR.

AHFMR has the option to convert the outstanding obligation including the debt of $223,175 plus the contingent royalty liability of $250,000 into an equity interest in NeuroSpheres equal to 2.5% of all issued and outstanding shares at the time the option is exercised. The option value was deemed to be nominal at the grant date.

CytoStore's debt from WED is interest bearing and repayment is contingent upon CytoStore's ability to generate gross sales of product. CytoStore is required to pay ten (10) annual installments equal to 5% of all gross revenue in excess of $2,500,000 received by CytoStore until the total amount contributed by WED is repaid. The initial installment is due on May 31, 2009 for the fiscal year ended March 31, 2009. However, if in any year CytoStore's revenues are $2,500,000 or less, the installment payment required for that year will be nil. To date, no amount has been repaid.

Interest on the debt is set at the rate of three percent above the minimum rate at which the Bank of Canada is prepared to make loans as at the date the payments are due. The interest is compounded monthly on any amount that remains unpaid 30 days after the date on which the payment was due.

CytoStore is required to repay two times the gross amount invested by AVAC Ltd. (to a maximum of $647,500). Repayment is required in the form of a royalty from net sales and net sub-licensing revenue received from sales of Organelle Purification Kits that utilize the Protein "A" oilbody technology. First payment is not required until after June 30, 2007.

11. Long-term note payable

As part of the reorganization that took place on April 1, 2005, the University of Calgary transferred its shares in old UTI to 6325041 Canada Ltd. in exchange for a promissory note in the amount of $9,000,000 (the "Principal Amount") and a nominal number of shares. The note bears interest on the Principal Amount outstanding from time to time at a rate per annum equal to 6%. The interest shall be paid in cash annually in arrears on or before July 1 of each year in respect of the prior 12 month period commencing on April 1 and ending on March 31. However, the University of Calgary, in its sole and absolute discretion may waive payments of interest in any given year as long as the Principal Amount is outstanding or may accept securities of UTI in lieu of cash payment in any given year as long as the Principal Amount is outstanding. The Principal Amount must be paid to the University of Calgary within 15 days of the University of Calgary making a written demand.

12. Share capital

University Technologies International Inc.

(a) Authorized

One Class "A" common share
Unlimited number of Class "B" voting preferred shares

(b) Outstanding

	2006	2005
Common shares		
Number of Shares	1	1
Amount	$ 1	$ 1
Class "B" preferred shares (voting)		
Number of Shares	-	670,159
Amount	$ -	$ 670,159

Class "B" voting preferred shares are redeemable at the Company's option and were entitled to a non-cumulative dividend, when and if declared by the Company, of up to 15% per annum. The original Class "B" voting preferred shares of old UTI, as showing at March 31, 2005, were eliminated during the restructuring.

UTI Limited Partnership

(a) Partnership Units Authorized

There is no restriction on the number of Class A Preferred Units and Class B Units that a Limited Partner is entitled to hold in the Limited Partnership (subject to the maximum number available, which number may be increase or decreased in the sole discretion of the General Partner) pursuant to the Limited Partnership Agreement, as outlined in the Units and Partner Status.

(b) Partnership Units Outstanding

		2006	2005
Class A Preferred Units (non-voting)			
Number of Units		**1**	-
Amount	$	**4,542,197**	-
Class B Units (voting)			
Number of Units		**1**	-
Amount	$	**100**	-

The Partnership was created April 1, 2005 therefore there are no units outstanding for the period ending March 31, 2005. During the period ending March 31, 2006, the Partnership distributed cash of $540,000 to the Class A Preferred Units.

13. Commitments and Contingency

The Group signed a new five year lease agreement on November 21, 2005. The Group is committed to minimum operating lease payments, per year ending, under the terms of premises leases as follows:

March 31, 2007 -	$93,097
March 31, 2008 -	$87,845
March 31, 2009 -	$75,814
March 31, 2010 -	$79,110
December 31, 2010 -	$59,333

In the event a disposition of an equity holding occurs in an investment which generates a realized capital gain and which is subject to the Equity Incentive Plan ("EIP"), such capital gain may be reduced by up to 20% as a result of incentive pay to EIP participants. As at March 31, 2006, $96,778 has been accrued relating to current amounts owed under the EIP based on sales of equity during the year.

14. Related party transactions

During the year, the Group was involved in the following transactions with the University of Calgary:

		2006		2005
Client contract revenue	$	**75,000**	$	75,000
Other revenue		**191,019**		64,939
Product development expense		**6,367**		28,503
Other services included in operating expense		**35,693**		39,249
Royalty payments		**32,938**		40,133
Reagent production costs		**11,710**		21,645
Property, plant and equipment expenditures		**-**		530
Project expenditures		**188,436**		43,602
Interest on note payable *(note 11)*		**540,000**		-
Other		**5,779**		3,323

At March 31, 2006, accounts payable included $141,710 (2005 - $28,485) due to the University of Calgary related to the above transactions. These transactions were entered into on the same terms and conditions as transactions with non-related parties and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

15. Defined contribution plans

The Group maintains voluntary defined contribution plans for its eligible full-time and part-time employees. The Group will match and contribute up to a maximum of 4% of an employee's gross salary to an RRSP. This contribution is based on the executive level of the employee, length of service of the employee and the amount the employee contributes. The Group also contributes 3% of an employee's gross salary to a pension plan. The Group contributed a total of $60,256 in the fiscal year 2006 (2005 - $56,768).

16. Expense reimbursements

Expense reimbursements consist of:

		2006		2005
Government Assistance				
Government of Alberta	$	**138,222**	$	630,333
Government of Canada		**3,104**		82,960
		141,326		713,293
Other reimbursements		**101,447**		32,685
	$	**242,773**	$	745,978

17. Changes in non-cash working capital and restricted cash

	2006	2005
Accounts receivable	$ (510,786)	$ (180,689)
Income tax refund receivable	86,907	(18,609)
Investment tax credit receivable	6,923	53,121
Prepaid expense	(11,804)	1,779
Inventory	6,335	14,312
Restricted cash	(141,232)	528,269
Accounts payable and accrued liabilities	246,018	(94,406)
Deferred revenue	141,232	(528,269)
	$ (176,407)	$ (224,492)

18. Budget

The budget was approved by the Board of Directors on March 30, 2005.

19. Financial instruments

(a) Fair value

Financial instruments are comprised of cash and cash equivalents, accounts receivable, income tax refund receivable, investments, restricted cash and cash equivalents, accounts payable and accrued liabilities, and long-term debt. The fair value of monetary assets and liabilities, except investments and long-term debt, is not considered to be materially different from their stated values, due to the relatively short period to maturity of all significant balances. The fair market value of the investments has been disclosed in Note 6(b). The long-term debt balance relating to AHFMR does not currently have fixed repayment terms; however the long-term debt balance with WED and AVAC Ltd. have repayment terms based on gross revenue. It is not possible to determine fair value of these financial instruments at March 31, 2006. Financial derivative instruments are not used by the Group.

(b) Credit and foreign currency risk

The Group is not exposed to significant credit risk as it sells mainly to a diverse group of established distributors and users. Foreign currency risk is not considered to be significant as the majority of the Group's sales are in Canadian dollars.

(c) Interest rate risk

The Group is exposed to interest rate risk in relation to interest income earned on cash and cash equivalents. At March 31, 2006, the increase or decrease in earnings for each 1% change in interest rates earned on cash and cash equivalents amounts to approximately $36,000 per annum before tax (2005 – $38,000).

University Technologies Group

Schedule 1

(previously University Technologies International Inc.)
Combined Schedule of Net Licensing and Royalty Revenue
For the years ended March 31

	2006		2005
	Budget	Actual	Actual
Gross revenue from licensing and royalty agreements	$ 4,301,528	$ **3,587,679**	$ 3,597,463
Distribution to other parties under licensing and royalty agreements			
Inventors		**1,773,663**	1,906,304
Client institutions		**28,566**	43,370
	2,429,253	**1,802,229**	1,949,674
Net licensing and royalty revenue	$ 1,872,275	$ **1,785,450**	$ 1,647,789

University Technologies Group

Schedule 2

(previously University Technologies International Inc.)
Combined Schedule of Net Product Development Revenue (Expense)
For the years ended March 31

	2006		2005
	Budget	Actual	Actual
Revenue earned under product development agreements	$ 60,000	$ **316,157**	$ 94,680
Product development expense	100,412	**347,945**	68,511
Investment tax credits repayable	-	-	42,964
	100,412	**347,945**	111,475
Net product development revenue (expense)	$ (40,412)	$ **(31,788)**	$ (16,795)

University Technologies Group

Schedule 3

(previously University Technologies International Inc.)
Combined Schedule of Net Sales Revenue
For the years ended March 31

	2006		2005
	Budget	Actual	Actual
Sales revenue	$ 234,222	$ 171,270	$ 91,270
Cost of sales	24,000	27,074	15,638
Production expense	-	-	2,945
	24,000	27,074	18,583
Net sales revenue	$ 210,222	$ 144,196	$ 72,687

University Technologies Group

Schedule 4

(previously University Technologies International Inc.)
Combined Schedule of Personnel Costs
For the years ended March 31

	2006					2005	
	Number of individuals	**Base Salary (1)**	**Other Cash Benefits (2)**	**Benefits and allowances (3)**	**Total**	Number of individuals	Total
		$	**$**	**$**	**$**		$
Chairman	**1**	**-**	**36,000**	**-**	**36,000**	1	36,000
Other directors	**13**	**-**	**-**	**-**	**-**	13	-
Senior employees:							
President	**1**	**202,904**	**84,200**	**14,373**	**301,477**	1	273,556
VP Business Development (4)	**1**	**65,942**	**10,000**	**388**	**76,330**	1	142,676
VP Finance (5)	**1**	**91,941**	**13,900**	**8,714**	**114,555**	1	50,828

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include bonuses, equity incentive compensation, vacation payments, overtime, and lump sum payments.

(3) Benefits and allowances include the Group's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, health care, dental coverage, group life insurance and pension.

(4) During 2005, the VP Business Development retired from the Group early in the year. His replacement was hired in October of 2005.

(5) The Group hired a Vice President Finance and Administration in September of 2004.

OLYMPIC OVAL/ANNEAU OLYMPIQUE
Financial Statements

For the year ended March 31, 2006

Auditor's Report

Financial Statements:

- Statement of Base Operating Costs and Revenue
- Statement of Expenditures Incurred in Providing Programming for High Performance Athletes and Fund Balance
- Statement of Revenue and Expense for the Coaching Services Program
- Statement of Reserves
- Notes to the Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of the University of Calgary and the Board of Directors of Calgary Olympic Development Association

I have audited the statements of base operating costs and revenue of the Olympic Oval/Anneau Olympique, expenditures incurred in providing programming for high performance athletes and fund balance, revenue and expense for the coaching services program, and reserves for the year ended March 31, 2006. This financial information is the responsibility of the University's management. My responsibility is to express an opinion on this financial information based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

The Oval Long-term Operating Agreement requires that all revenues received and expenses incurred by the University in connection with the maintenance, management and operation of the Olympic Oval be included in the financial information. However, the statement of base operating costs and revenues does not include all the revenues and expenses arising from the University's use of the Oval facility. The amount of these excluded revenues and expenses is not reasonably determinable.

In my opinion, except for the exclusion of the revenues and expenses referred to in the preceding paragraph, this financial information presents fairly, in all material respects:

- the base operating costs and revenues;
- the expenditures incurred in providing programming for high performance athletes and fund balance;
- the revenue and expense for the coaching services program;
- and the reserves of the Olympic Oval/Anneau Olympique

for the year ended March 31, 2006 in accordance with Article 7.01a of the Oval Long-term Operating Agreement, December 31, 1987 and the Oval Long-term Operating Amending Agreement, April 1, 1995.

Fred Dunn FCA
Auditor General

Edmonton, Alberta
August 4, 2006

Olympic Oval/Anneau Olympique
Statement of Base Operating Costs and Revenue
For the year ended March 31, 2006

	2006 $ Budget (Note 7)	2006 $ Actual	2005 $ Actual
Base Operating Costs (Note 2)			
Salaries and benefits	1,807,752	1,783,185	1,899,458
Utilities and maintenance	1,360,641	1,082,012	1,134,403
Supplies and advertising	152,922	361,878	216,885
Central administration support	35,000	32,448	32,447
Purchased services	166,127	198,998	152,589
Telecommunications and postage	31,738	43,455	31,738
Travel and hosting	77,000	62,722	54,616
Insurance	22,000	21,883	20,659
Legal and audit	31,100	6,220	16,100
	3,684,280	3,592,801	3,558,895
Vacation pay not funded (Note 2)	-	(14,348)	(4,250)
Gross Revenue (Note 2)	(675,375)	(930,592)	(689,017)
Net base operating costs before other	3,008,905	2,647,861	2,865,628
Coaching services program deficiency/(excess) of revenue over expense	2,782	43,318	(103,899)
High performance programming	100,000	100,000	100,000
Operating costs to be funded	3,111,687	2,791,179	2,861,729
Funded by:			
University of Calgary (Note 3)	1,103,895	992,733	1,024,255
Calgary Olympic Development Association (Note 3)	2,007,792	1,798,446	1,837,474
	3,111,687	2,791,179	2,861,729

The accompanying notes are part of these statements.

Olympic Oval/Anneau Olympique

Statement of Expenditures Incurred in Providing Programming for High Performance Athletes and Fund Balance

For the year ended March 31, 2006

	2006 $	2005 $
Funds available at beginning of year	288,146	244,250
Less expenditures:		
Athlete support services	16,500	16,500
Transfer to coaching services program	30,000	30,000
Research funding	4,322	-
Research salaries and benefits	5,000	5,000
Research equipment and supplies	4,876	4,604
	60,698	56,104
Add University of Calgary allocation of revenues earned for high performance athletes programming	100,000	100,000
Funds available at end of year for expenditure on high performance athletes programming	327,448	288,146

The accompanying notes are part of these statements.

Olympic Oval/Anneau Olympique
Statement of Revenue and Expense
For the Coaching Services Program
For the year ended March 31, 2006

	2006			2005		
	Other Programming $	High Performance Athletes $	Total $	Other Programming $	High Performance Athletes $	Total $
Revenue:						
Grants and sponsorships	83,051	858,484	941,535	92,964	770,908	863,872
Camps and competitions	277,047	43,955	321,002	237,191	35,218	272,409
Coaching and other fees	240,535	365,001	605,536	143,135	363,523	506,658
General	58,017	35,599	93,616	54,997	21,860	76,857
Transfer from programming for high performance athletes	-	30,000	30,000	-	30,000	30,000
	658,650	1,333,039	1,991,689	528,287	1,221,509	1,749,796
Expense:						
Coaching salaries & benefits	200,743	963,069	1,163,812	166,326	900,280	1,066,606
Specialist sport services	99,704	123,420	223,124	68,335	119,408	187,743
Travel, camps, competitions	78,483	166,126	244,609	86,280	101,121	187,401
Advertising	2,716	2,864	5,580	1,607	5,643	7,250
Supplies	137,264	136,047	273,311	55,076	56,487	111,563
Meeting expense	8,806	15,123	23,929	12,302	5,183	17,485
Bursaries	16,200	73,000	89,200	-	60,100	60,100
Rentals and leases	87	926	1,013	589	1,699	2,288
Memberships	1,761	4,052	5,813	-	-	-
Other	223	74	297	1,945	40	1,985
	545,987	1,484,701	2,030,688	392,460	1,249,961	1,642,421
Excess (deficiency) of revenue over expense	112,663	(151,662)	(38,999)	135,827	(28,452)	107,375
Vacation pay not funded (Note 2)	(1,701)	(2,618)	(4,319)	(3,699)	223	(3,476)
Excess (deficiency) of revenue over expense – net to be funded	110,962	(154,280)	(43,318)	132,128	(28,229)	103,899

The accompanying notes are part of these statements.

Olympic Oval/Anneau Olympique
Statement of Reserves
For the year ended March 31, 2006

	Building Reserve		Special Equipment Reserve	
	2006 $	2005 $	2006 $	2005 $
Capital renewal provision	192,741	180,034	34,657	64,812
Interest	27,784	29,768	14,513	10,330
	220,525	209,802	49,170	75,142
Capital expenditures	63,884	2,608,664	45,708	136,737
Less funded by CODA	(42,589)	(1,739,109)	(30,473)	(91,158)
	21,295	869,555	15,235	45,579
Increase (decrease) in reserve for the year	199,230	(659,753)	33,935	29,563
Reserve balance at beginning of year	661,297	1,321,050	505,402	475,839
Reserve balance at end of year (Note 5)	860,527	661,297	539,337	505,402

The accompanying notes are part of these statements.

1 Purpose

The Olympic Oval/Anneau Olympique ("the Oval") was constructed by the University of Calgary (the "University") to serve as the speed skating venue for the 1988 Olympic Winter Games, with capital funding provided entirely by the Government of Canada. It is now operated as a legacy of the Games for the benefit of high performance athletes, the general public, and students and researchers of the University.

The Oval is operated by the University under the Oval Long-term Operating Agreement, December 31, 1987 and the Oval Long-term Operating Amending Agreement, April 1, 1995, (the Agreements), between the University, the Government of Canada and the Calgary Olympic Development Association ("CODA").

The purpose of the Oval as defined in the Oval Long-term Operating Agreement is to:

- recruit, train and coach High Performance Athletes;
- provide the University with a teaching, training, coaching, research, competition, and recreation facility;
- assist National and Provincial sport associations with their programs for high performance athletes at the Oval;
- assist the University and CODA related sports clubs to recruit, train, coach and compete in high performance sports utilizing the Oval;
- make the Oval available for international, national and regional games, competitions and athletic events; and
- provide the Oval as an accessible sports and recreation facility.

1 Purpose (continued)

An Olympic Endowment Fund (OEF) was created in December 1987. The distributable income from the fund is used to pay, among other costs, 2/3 of the Base Operating Cost less 2/3 of the Gross Revenue of the Oval and to appropriate to the Oval OEF Reserve 2/3 of the capital renewal provision for the Olympic Oval. This appropriation is held by the Calgary Olympic Development Association. 2/3 of the capital costs related to the Oval are funded out of the Oval OEF.

2 Significant Accounting Policies and Reporting Practices

These statements have been prepared in accordance with the requirements of the Agreements. The following definitions apply:

a) *Base Operating Costs*

Base operating costs are the aggregate of annual costs and expenses directly applicable to the maintenance, management and operation of the Oval, but exclude the costs of Programming and Capital Renewal Cost. Capital Renewal Cost is expenditures incurred for the repair, upgrading and replacement of Building, Building Equipment and Special Equipment.

b) *Gross Revenue*

Gross revenue is defined as revenue received from use of the Oval including, without limitation, user fees, concessions, billboard advertising, scoreboard advertising, pro-shop(s), locker rentals, building tours, souvenirs, sponsorships, TV rights, and radio rights except where gross revenues are directly linked to programming or other obligations where those gross revenues have an associated expenditure requirement, then only the net revenue is included.

c) *Funding*

Funding has been calculated in accordance with the agreement (See Note 3). Vacation pay is accrued at year end and funded when vacation is taken.

2 Significant Accounting Policies and Reporting Practices (continued)

d) *High Performance Programming*

High performance programming includes the revenue and expenses that are incurred to support nationally carded athletes and those athletes at a developmental level whose training is geared to becoming such an athlete. High performance programming includes the staging of international and national competitions.

e) *Other Programming*

Other programming includes the revenue and expenses that are incurred to support developmental athletes and includes all developmental camps and competitions. Other programming also includes the revenue and expenses for the Olympic Oval Cycling Program.

f) *Reserves*

Reserves have been established for the building, special equipment and new equipment. Reserves are calculated in accordance with the agreement (See Note 5).

3 Funding

Funding is calculated in accordance with the agreement. The main elements are:

- The University funds 1/3 of the net base operating costs.
- The University funds 1/3 and CODA funds 2/3 of the coaching program deficiency except for the cycling program.
- The University funds 100% of the program deficiency for the cycling program.
- The University is allocated 1/3 of the gross revenue and is required to transfer $100,000 of the gross revenue allocated to the University to fund high performance athletes. Where one-third of the revenue is in excess of $100,000, the remainder is used to offset the University's share of base operating costs.

3 Funding (continued)

- CODA funds 2/3 of the base operating costs less 2/3 of the gross revenue.

Funding has been calculated as follows:

University of Calgary	2006 $	Share	2006 Funding $	2005 $	2005 Funding $
Net base operating costs	2,647,861	1/3	882,620	2,865,628	955,209
Coaching services program deficiency/(excess)	49,807	1/3	16,602	(109,418)	(36,473)
Cycling program deficiency/(excess)	(6,489)	100%	(6,489)	5,519	5,519
University of Calgary share of revenue allocated to high performance athletes programming from gross revenue	100,000	100%	100,000	100,000	100,000
	2,791,179		992,733	2,861,729	1,024,255

CODA	2006 $	Share	2006 Funding $	2005 $	2005 Funding $
Net base operating costs	2,647,861	2/3	1,765,241	2,865,628	1,910,419
Coaching services program deficiency/(excess)	49,807	2/3	33,205	(109,418)	(72,945)
Cycling program deficiency/(excess)	(6,489)	-	-	5,519	-
University of Calgary share of revenue allocated to high performance athletes programming from gross revenue	100,000	-	-	100,000	-
	2,791,179		1,798,446	2,861,729	1,837,474

4 High Performance Programming and Fund Balance

The unexpended portion of the funds is held in an account by the University of Calgary for the Oval.

5 Reserves

The University is required to contribute one-third of the Capital Renewal Provisions for the building and the special equipment reserves, which are defined as follows:

5 Reserves (continued)

Building Reserve

- A reserve established to fund expenditures for repair, upgrading and replacement of Building and Building Equipment by an annual provision of $370,000 subject to adjustment by agreement of the parties escalated annually in proportion to the increase in the Construction Price Index, the aggregate of which cannot exceed $3,000,000 escalated annually in proportion to the increase in the Construction Price Index.

Special Equipment Reserve

- A reserve established to fund expenditures for repair, upgrading and replacement of Special Equipment by an annual provision calculated by Calgary Olympic Development Association and the University to maintain a reserve balance of not less than $1,000,000 expressed in 1989-90 dollars, subject to adjustment by agreement of the parties escalated annually in proportion to the Construction Price Index.

The Non-residential Building Construction Price Index for Calgary is used to calculate the annual adjustment required under the Agreements for both reserves. The increase in the index from the prior year is applied to the annual provision for the Building Reserve. The increase in the index is also applied to the 1995-96 value for the Special Equipment Reserve to determine the minimum reserve balance required.

All capital renewal costs are initially paid for by the Oval. The Calgary Olympic Development Association reimburses the Oval for two-thirds of all capital renewal costs. One-third of the costs are funded by the University.

The University's share of the reserve balances are held by the University of Calgary. These statements reflect only the balance of reserves held by the University.

6. Coaching Services Program

The coaching services program includes revenue earned and expenses incurred in providing programming to both high performance and other athletes. Revenue and expenses under this program are classified as high performance when they have been received or incurred to support nationally carded athletes including those that may be at a developmental level. Revenue and expenses incurred to support other athletes have been classified as other programming on the statement of revenue and expense for the coaching services program.

7 Budget

The 2006 base operating budget was approved by the Olympic Endowment Fund Allocations Committee on October 13, 2005.

8 Comparative Figures

Certain comparative figures have been reclassified to conform to the current year presentation.

9 Approval of Statements

These statements were approved by management.

UNIVERSITY OF LETHBRIDGE
Financial Statements

For the year ended March 31, 2006

Auditor's Report

Financial Statements:

- Statement of Financial Position
- Statement of Operations
- Statement of Cash Flows
- Statement of Changes in Net Assets
- Notes to Financial Statements

AUDITOR
GENERAL
Alberta

Auditor's Report

To the Board of Governors of the University of Lethbridge

I have audited the statement of financial position of the University of Lethbridge as at March 31, 2006 and the statement of operations, changes in net assets, and cash flows for the year then ended. The financial statements are the responsibility of the management of the University. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the University as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn FCA
Auditor General

Edmonton, Alberta
May 12, 2006

University of
Lethbridge

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31
(thousands of dollars)

ASSETS

	2006	2005
CURRENT ASSETS		
Cash and short-term investments	$ 28,528	$ 18,196
Accounts receivable	5,895	5,420
Inventories	432	476
Prepaid expenses	665	593
	35,520	24,685
INVESTMENTS (Notes 3, 4)	54,102	51,325
CAPITAL ASSETS AND COLLECTIONS (Note 5)	185,726	172,775
	$ 275,348	$ 248,785

LIABILITIES AND NET ASSETS

	2006	2005
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 7,528	$ 5,618
Employee benefit liabilities (Note 6)	4,656	4,411
Deferred revenue	4,007	4,448
Deferred contributions, research and other (Note 8)	8,192	9,879
Current portion of long term debt	122	115
	24,505	24,471
LONG TERM LIABILITIES		
Long term debt (Note 9)	3,654	3,776
Employee benefit liabilities (Note 6)	6,168	5,545
Deferred contributions, research and other (Note 8)	577	869
Deferred contributions, capital (Note 8)	12,585	4,834
	22,984	15,024
UNAMORTIZED DEFERRED CAPITAL CONTRIBUTIONS (Note 10)	91,103	84,437
NET ASSETS		
Investment in capital assets and collection	90,846	84,445
Endowments (Note 11)	13,663	11,975
Internally restricted (Note 12)	16,541	13,713
Unrestricted	15,706	14,720
	136,756	124,853
Commitments and Contingencies (Note 20)		
	$ 275,348	$ 248,785

The accompanying notes are part of these financial statements.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31
(thousands of dollars)

	2006	2005
REVENUE		
Grants	$ 77,961	$ 67,119
Tuition and related fees	35,060	33,743
Sales of services and products	11,964	11,629
Investment income (Note 13)	3,486	2,589
Gifts and donations	713	637
Amortization of unamortized deferred capital contributions (Note 10)	6,034	6,153
Miscellaneous	1,075	963
	136,293	122,833
EXPENSE		
Salaries	72,262	65,915
Employee benefits	11,278	10,805
Scholarships, fellowships and bursaries (Note 19)	3,676	2,982
Supplies and services	7,478	6,680
Cost of goods sold	3,004	2,888
Equipment	2,742	938
Travel	3,447	3,080
Utilities	2,934	3,046
External contracted services	2,593	2,683
Repairs and maintenance	1,671	1,796
Professional fees	911	1,032
Interest on long term liabilities	414	429
Insurance	408	367
Property taxes	234	219
Loss on disposal of capital assets	564	1,094
Unrealized loss on write-down of investments	492	55
Amortization of capital assets	12,087	12,064
	126,195	116,073
EXCESS OF REVENUE OVER EXPENSE	$ 10,098	$ 6,760

University of Lethbridge

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31
(thousands of dollars)

	2006	2005
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Excess of revenue over expense	$ 10,098	$ 6,760
Non-cash transactions		
Amortization of unamortized deferred capital contributions	(6,034)	(6,153)
Amortization of capital assets	12,087	12,064
Loss on disposal of capital assets	564	1,094
Unrealized loss on write-down of investments	492	55
Increase in long-term employee benefit liabilities	623	901
	17,830	14,721
Decrease in non-cash working capital (Note 15)	(2,511)	(235)
	15,319	14,486
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchase of investments (net)	(3,269)	(3,565)
Capital asset additions		
Internally funded	(12,723)	(10,163)
Externally funded	(12,700)	(2,232)
Collection additions	(8)	-
Proceeds on disposal of capital assets	67	68
	(28,633)	(15,892)
Increase (decrease) in construction accounts payable	2,035	(126)
	(26,598)	(16,018)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Capital contributions received	20,160	6,653
Endowment contributions received	1,292	409
Capitalized investment earnings	274	221
Long term debt repayments	(115)	(108)
	21,611	7,175
INCREASE IN CASH	10,332	5,643
CASH AND SHORT-TERM INVESTMENTS, beginning of year	18,196	12,553
CASH AND SHORT-TERM INVESTMENTS, end of year	$ 28,528	$ 18,196

University of
Lethbridge

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31
(thousands of dollars)

	2006					2005
	Investment in Capital Assets and Collection	Endowments	Internally Restricted	Unrestricted	TOTAL	TOTAL
BALANCE, beginning of year	$84,445	$11,975	$13,713	$14,720	$124,853	$117,266
Excess of revenue over expense	-	-	-	10,098	10,098	6,760
Direct increases to net assets:						
Non-amortizable collection donations	239	-	-	-	239	197
Endowment contributions	-	1,292	-	-	1,292	409
Capitalized investment earnings	-	274	-	-	274	221
Transfers:						
Internally funded:						
Capital asset additions	12,723	-	(8,570)	(4,153)	-	-
Non-amortizable collection acquisitions	8	-	-	(8)	-	-
Net book value of capital asset disposals	(599)	-	-	599	-	-
Amortization	(6,085)	-	-	6,085	-	-
Capitalized investment earnings	-	32	-	(32)	-	-
Repayment of long term debt	115	-	-	(115)	-	-
Endowments	-	90	-	(90)	-	-
Allocation to internally restricted net assets	-	-	11,398	(11,398)	-	-
BALANCE, end of year	$90,846	$13,663	$16,541	$15,706	$136,756	$124,853

NOTES TO THE FINANCIAL STATEMENTS
(in thousands of dollars)

Note 1 Authority and Purpose

The University of Lethbridge operates under the *Post-Secondary Learning Act of Alberta* to provide post-secondary and graduate education and to engage in research and public service. The University is a registered charity, and under section 149 of the *Income Tax Act of Canada*, is exempt from the payment of income tax.

Note 2 Significant Accounting Policies

a) General – GAAP and use of estimates

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, known as GAAP. The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these financial statements requires the use of estimates, which may vary from actual results. Such estimates have been made using judgments determined by the University's administration. In administration's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies summarized below. These significant accounting policies are presented to assist the reader in evaluating these financial statements and, together with the following notes, should be considered an integral part of the financial statements.

b) Revenue Recognition

The financial statements record the following items as revenue - at the following times:

- Unrestricted contributions - when received, or receivable, if the amount can be reasonably estimated and collection is reasonably assured.
- Unrestricted investment income - when earned; this includes interest, dividends, realized gains and losses.
- Revenues received for services and products - when the services or products are provided.
- Tuition fees - when the instruction is delivered.
- Restricted contributions - based on the deferral method.

Restricted contributions – deferral method
Contributions, including investment income on the contributions, that are restricted for purposes other than endowment or capital asset acquisitions, are deferred and recognized as revenue when the conditions of the contribution are met.

Contributions to acquire capital assets with limited life are first recorded as deferred contributions when received, and when expended, they are transferred to unamortized deferred capital contributions and amortized to revenue over the useful lives of the related assets.

Endowment contributions are recognized as direct increases in endowment net assets. Investment earnings, under agreements with benefactors or the *Post-Secondary Learning Act of Alberta* allocated to endowment principal, are also recognized as direct increases in endowment net assets. Endowment investment earnings that are allocated for spending are deferred and recognized as revenue when the conditions of the endowment are met.

Contributions restricted to the acquisition of land and permanent collections are first recorded as deferred contributions when received, and when expended, they are recognized as direct increases in investment in capital assets and collections.

c) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at cost.

Note 2 Significant Accounting Policies (continued)

d) Investments

Short-term investments are held at the lower of cost or market.

Investments are recorded at cost or amortized cost where applicable. Amortization of premiums or discounts is calculated on a straight-line basis from acquisition date to maturity. Capital gains or losses are recognized in the year of disposal or when there is other than a temporary decline in the value of the investment.

e) Capital Assets and Collections

Capital assets purchased are recorded at cost. In-kind contributions are recorded at fair market value when a fair value can be reasonably determined. Permanent collections are not amortized and consist of works of art.

Capital assets, once placed into service, are amortized on a straight-line basis over the assets' estimated useful lives. The estimated useful lives are as follows:

Land improvements	10-25 years	Computer equipment	3-5 years
Buildings – Exterior	40 years	Electrical equipment	20 years
Buildings – Interior	20 years	Software	3-5 years
Leasehold improvements	15 years	Vehicles	6 years
Furnishings and equipment	5-10 years	Learning resources	10 years

f) Pension and Other Employee Future Benefit Plans

The University participates in the Universities Academic Pension Plan and the Public Service Pension Plan. These pension plans are multi-employer defined benefit plans that provide pensions for the University's participating employees based on years of service and earnings. Defined contribution plan accounting is applied to these pension plans as the University has insufficient information to apply defined benefit plan accounting. Pension costs included in these financial statements comprise the amount of employer contributions required for its employees during the year, based on rates that are expected to provide for benefits.

The actuarial determination of the accrued benefit obligations for other employee future benefits uses either the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors) or the accumulated benefit method where future salary levels or cost escalations do not affect the amount of employee future benefits.

Actuarial gains (losses) arise from experience different from that assumed or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the benefit obligation is amortized over the average remaining service period of active employees. The average remaining service life of the active employees covered by the non-pension employee future benefit plans ranges from two to seven years.

g) Pledges Receivable

Pledges receivable are not recorded as assets in these financial statements. Pledges are disclosed in Note 18.

h) Contributed Services

Volunteers and University staff contribute services each year to assist the University in achieving its mandate. The financial statements do not record the value of these services.

i) Fair Value of Financial Instruments

The carrying values of financial assets and financial liabilities approximate fair value unless otherwise disclosed.

Note 2 Significant Accounting Policies (continued)

j) Credit, Interest Rate and Market Risk

The University's accounts receivable are due from a diverse group of customers and are subject to normal credit risks.

The interest rate risk is the risk to the University's earnings that arises from the fluctuations in interest rates and the degree of volatility of these rates.

The market risk is the risk to the University's earnings that arises from the fluctuations and degree of volatility in the market value of its long term investments.

k) Foreign Currency Translation

Financial assets and liabilities recorded in foreign currencies are translated to Canadian dollars at the year-end exchange rate. Revenues and expenses are translated at average weekly exchange rates. Gains or losses from these translations are included in operations.

Note 3 Investments and Cash

Cash and cash equivalents and short-term investments are invested in highly secure Canadian money market instruments.

The mid-term investments are invested in high quality Canadian denominated bonds and debentures.

The long-term investment portfolio includes endowment assets as well as the portion of non-endowment assets that will not be required for spending in the short-term. The primary objective of this portfolio is a rate of return that, in real terms, exceeds the endowment spending allocation at an acceptable risk level.

The carrying values of investments are as follows:

	2006	2005
Cash, short-term notes and treasury bills	$ 30,196	$ 22,885
Bonds	20,365	18,695
Stocks	31,630	27,542
Other investments	439	399
	82,630	69,521
Less amounts reported as:		
Cash	16,121	6,078
Short-term investments	12,407	12,118
Total	$ 54,102	$ 51,325

Short term investments are held on average for less than one year and bonds are held on average less than four years. Bonds in the portfolio have maturity dates between two and thirty years, with an average maturity date of nine years.

Bond investments must have a rating of BBB-plus or better and the short term portfolio must be rated at least R-1, mid (or equivalent) as per the Dominion Bond Rating Service.

As at March 31, 2006, the average effective yields and the terms to maturity are as follows:

- Short term notes and treasury bills: 2.35% (2005 – 3.58%); term to maturity: less than one year.
- Government and corporate bonds: 5.03% (2005 – 5.11%); term to maturity: range from less than one year to more than 30 years.

Note 4 Interest in Joint Venture

The University has a one-third joint venture interest in Campus Alberta Applied Psychology: Counselling Initiative. Three Alberta universities formed the joint venture to develop and deliver a Collaborative Alberta Graduate Counselling Program.

The University's equity in the accumulated earnings of the joint venture at March 31, 2006 is $316 (2005 - $291) and is included in Other Investments (Note 3).

At March 31, 2006 the University's share of the joint venture's assets and liabilities are:

	2006	2005
Current assets [1]	$ 581	$ 458
Capital assets	3	4
	$ 584	$ 462
Current liabilities	$ 265	$ 167
Unamortized deferred capital contributions	1	3
Investment in capital assets	2	1
Joint venture interest	316	291
	$ 584	$ 462

[1] included in current assets is a receivable of $398 (2005 - $223) from the University of Lethbridge for operating funds that are being administered on behalf of the joint venture.

The University's share of joint venture earnings for the year ending March 31, 2006 is $105 which is one-third of the net of total revenues of $2,025 less total expenses of $1,710.

Note 5 Capital Assets and Collections

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Buildings and land improvements	$ 197,562	$ 66,864	$ 130,698	$ 179,052	$ 60,993	$ 118,059
Equipment and furnishings	52,366	39,202	13,164	50,966	36,788	14,178
Library materials	25,405	17,621	7,784	23,313	16,607	6,706
Capital assets subject to amortization	275,333	123,687	151,646	253,331	114,388	138,943
Land	638		638	638		638
	275,971	$ 123,687	152,284	253,969	$ 114,388	139,581
Permanent collections	33,442		33,442	33,194		33,194
Capital assets and collections	$ 309,413		$ 185,726	$ 287,163		$ 172,775

Included in buildings and land improvements is $19,645 (2005 - $2,656) recorded as construction in progress, which is not amortized as the assets are not yet available for use.

Acquisitions during the year included in-kind contributions (such as learning resources and equipment) in the amount of $268 (2005 - $186).

At April 1, 2005 the University increased its threshold for capitalization of assets from one thousand to five thousand dollars. This change is being applied to the current and future periods. The effect on the current period's statement of operations was an increase in equipment expense of $1,763.

Note 6 Employee Benefit Liabilities

	2006	2005
Vacation and overtime pay	$ 3,668	$ 3,366
Maternity and parental leaves	209	143
Other payroll liabilities	151	425
Early retirement benefit plans	560	853
Senior administrative leaves	4,839	3,990
Supplementary benefit plan	921	762
Long-term disability benefits	476	417
	10,824	9,956
Less current portion	(4,656)	(4,411)
	$ 6,168	$ 5,545

Note 7 Pension and Other Employee Future Benefit Plans

The University has a number of defined benefit plans that provide pension, other retirement and post-employment benefits to most of its employees. These include the Early Retirement Plan, the Senior Administrative Leave Plan, Long-term Disability Plans and pension plans. In addition, the University provides a supplementary benefit plan to some employees, which is accounted for as a defined contribution plan.

The Early Retirement Plan pays a fixed amount annually based on the salary and benefits in effect for each member at the date of retirement. This plan is closed to new members and no future service benefits are being accrued.

The Senior Administrative Leave Plan provides for certain senior administrators to accrue an entitlement to a leave of absence, for the purpose of professional development, normally at the end of their service in an administrative position. During the administrative leave, the member's salary and benefits in effect prior to taking the leave or at the end of the service are paid for the duration of the leave and are indexed at a rate determined by the University.

The Long-Term Disability Plans provide pension and non-pension benefits after employment, but before retirement. The University pays for the non-insured portion of the disability benefits.

The Supplementary Benefit Plan provides a termination benefit to certain employees over and above the benefits provided by the Universities Academic Pension Plan. The University contributes annually to the Supplementary Benefit Plan based on the employee's salary. Each employee's account is also adjusted annually by the realized rate of return on the University's long-term investments.

a) Benefit Plans

The University measures its accrued benefit obligations for accounting purposes as at March 31 of each year. The most recent actuarial valuation of the employee future benefit plans was performed as of March 31, 2006.

The benefit plan obligations are as follows:

	2006				2005			
	Supplementary Benefit Plan	Early Retirement Plan	Senior Administrative Leave	Long Term Disability Plan	Supplementary Benefit Plan	Early Retirement Plan	Senior Administrative Leave	Long Term Disability Plan
Accrued benefit obligation:								
Balance, beginning of year	$ 695	$ 850	$ 3,996	$ 462	$ 626	$ 1,257	$ 3,428	$ 115
Current service cost	206	-	843	116	168	-	682	340
Past service cost	15	-	-	-	-	-	-	-
Interest cost	45	24	166	19	33	24	126	10
Benefits paid	(40)	(316)	(188)	(85)	(65)	(428)	(246)	(48)
Actuarial loss (gain)	-	2	22	76	(67)	(3)	6	45
Balance, end of year	921	560	4,839	588	695	850	3,996	462
Plan assets	-	-	-	-	-	-	-	-
Funded status - plan deficit	921	560	4,839	588	695	850	3,996	462
Unamortized net actuarial gain (loss)	-	-	-	(112)	67	3	(6)	(45)
Accrued benefit liability	$ 921	$ 560	$ 4,839	$ 476	$ 762	$ 853	$ 3,990	$ 417

Note 7 Pension and Other Employee Future Benefit Plans (continued)

Total cash payments for employee future benefits for 2006, consisting of cash payments directly to beneficiaries for unfunded benefit plans and cash contributed to its multi-employer defined benefit plans, were $5,826 (2005 - $5,146).

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligations are as follows:

	2006				2005			
	Supplementary Benefit Plan	Early Retirement Plan	Senior Administrative Leave	Long-Term Disability Plan	Supplementary Benefit Plan	Early Retirement Plan	Senior Administrative Leave	Long-Term Disability Plan
Discount rate	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Rate of compensation increase	n/a	n/a	6.00%	5.00%	n/a	n/a	7.25%	6.25%
Assumed benefit cost trend rates:								
Pension contributions	n/a	n/a	n/a	5.00%	n/a	n/a	n/a	6.25%
Benefits	n/a	4.50%	4.50%	4.50%	n/a	n/a	4.50%	4.50%
Average remaining service period of active employees	7 years	2 years	6 years	5 years	6 years	2 years	7 years	5 years

b) Pension plans

The University participates in the Universities Academic Pension Plan and the Public Service Pension Plan. These pension plans are multi-employer defined benefit pension plans that provide pensions for the University's participating employees, based on years of service and earnings. The pension expense recorded in these financial statements is equivalent to the University's annual contributions of $5,197 for the year ended March 31, 2006 (2005 - $4,359) including UAPP contributions of $4,327 (2005 - $3,542) and PSPP contributions of $870 (2005 - $817).

At December 31, 2005, the Universities Academic Pension Plan reported an actuarial deficiency of $537,415 (2004 - $643,979) consisting of a pre-1992 deficiency ($460,286) and a post-1991 deficiency ($77,129). An actuarial valuation of the UAPP was carried out as at December 31, 2004 and the liability was extrapolated to December 31, 2005. The UAPP undertakes an actuarial valuation of the Plan every two years. The unfunded liability for service prior to January 1, 1992 is being financed by additional contributions of 1.25% (2004 - 1.25%) of salaries by the Province of Alberta. Employees and employers equally share the balance of the contributions of 2.28% (2004 – 1.76%) of salaries required to eliminate the unfunded liability on or before December 31, 2043. The actuarial valuation shows that the present value at December 31, 2004 of the Province of Alberta's obligation for the future additional contributions was $183,400. Effective July 1, 2005, the unfunded liability for service after December 31, 1991 is being financed by special payments of 2.64% (2004: 1.26%) of salaries shared equally between employees and employers over 15 years from the date of valuation until December 31, 2017. The special payments will decrease to 1.38% for the period January 1, 2018 to December 31, 2019.

At December 31, 2005, the Public Service Pension Plan reported an actuarial deficiency of $187,704 (2004 - $450,068). An actuarial valuation of the Public Service Pension Plan was performed as of December 31, 2002 and was extrapolated to December 31, 2005. An actuarial valuation is being performed as at December 31, 2005. The actuarial deficiency of $435 million as determined by the actuarial funding valuation as at December 31, 2002 is being funded by a special payment of 2.76% of pensionable earnings shared equally between employees and employers until December 31, 2017.

Note 8 Deferred Contributions

Deferred contributions represent unspent externally restricted grants and donations. Changes in the deferred contributions balances are as follows:

	2006			2005
	Capital	Research and Other	Total	Total
Balance, beginning of the year	$ 4,834	$ 10,748	$ 15,582	$ 12,008
Grants and donations received	15,874	14,981	30,855	16,039
Recognized as revenue	-	(12,383)	(12,383)	(10,233)
Transferred to unamortized deferred capital contributions	(8,123)	(4,577)	(12,700)	(2,232)
Balance, end of the year	12,585	8,769	21,354	15,582
Less amounts included in current liabilities	-	(8,192)	(8,192)	(9,879)
	$ 12,585	$ 577	$ 13,162	$ 5,703

Note 9 Long Term Debt

	Rate of Interest	Original Advance	Amount Outstanding 2006	Amount Outstanding 2005
Alberta Capital Finance Authority debenture for student residences, due April 15, 2023	6%	4,000	$ 3,776	$ 3,891
Current portion			(122)	(115)
			$ 3,654	$ 3,776

The debenture is secured by cash flows generated from the new residences and the Aperture Park and University Hall residences.

Interest on the debenture of $227 was charged to expense in fiscal 2006 (2005 - $233).

Principal payments on the debenture over the next five fiscal years are as follows: 2007 - $122; 2008 - $130; 2009 - $137; 2010 - $146; 2011 - $154.

Note 10 Unamortized Deferred Capital Contributions

Unamortized deferred capital contributions represent the unamortized grants and donations received to fund capital acquisitions. The amortization of unamortized deferred capital contributions is recorded as revenue in the statement of operations. The changes in the unamortized deferred capital contributions balance are as follows:

	2006	2005
Balance, beginning of year	$ 84,437	$ 88,358
Additions from deferred contributions (Note 8)	12,700	2,232
Amortization to revenue	(6,034)	(6,153)
Balance, end of the year	$ 91,103	$ 84,437

Note 11 Endowments

Endowments consist of:

- Internal allocations by the Board of Governors (internally restricted).
- Restricted donations to the University - the principal must be maintained intact in perpetuity (externally restricted).

The investment income earned on internally restricted endowments is used to fund the University of Lethbridge Scholarship Endowment and the International Entrance Award as directed by Board of Governors resolutions. The purpose of the internally restricted endowments cannot be changed without approval of the Board of Governors.

Investment income earned on endowments must be used in accordance with the various purposes established by the donors or the Board of Governors. Benefactors as well as University policy stipulate that the economic value of the endowments must be protected through allocations of investment income earned to reflect changes in purchasing power of the endowment principal. Under the *Post-Secondary Learning Act*, the University has the authority to alter the terms and conditions of an endowment to enable income earned by the endowment to be withheld from distribution to avoid fluctuations in the amounts distributed and generally to regulate the distribution of income earned by the endowment.

	2006			2005		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Cumulative contributions	$ 9,958	$ 1,342	$ 11,300	$ 8,666	$ 1,252	$ 9,918
Cumulative capitalized earnings	2,189	174	2,363	1,915	142	2,057
	$ 12,147	$ 1,516	$ 13,663	$ 10,581	$ 1,394	$ 11,975

During the year the University capitalized $274 (2005 - $221) of investment income related to externally restricted endowments. A portion of this amount was added to externally restricted endowments through the authority provided to the University under the Post-Secondary Learning Act. The University intends that this portion be maintained in perpetuity.

Note 12 Internally Restricted Net Assets

Internally restricted net assets represent amounts set aside by the Board of Governors for specific needs such as one-time expenditures for increasing efficiency, reducing costs, construction or providing for contingencies.

	2006	2005
OPERATING		
Staff training and development	$ 31	$ 42
Academic development	242	182
Campus planning studies	160	160
Utilities contingency - rate increases	55	50
Program development	235	228
	723	662
CAPITAL		
Capital replacement - Ancillary Services	2,176	1,603
Capital replacement - Sports & Recreation Services	245	315
Housing Services - residences	895	1,074
Capital equipment	1,508	1,246
Buildings and plant (1)	10,353	8,198
Site and utilities	71	59
Utility conservation	270	264
Self insurance	195	189
Service vehicles and equipment	105	103
	15,818	13,051
	$ 16,541	$ 13,713

(1) The Board of Governors set aside $10,000 for funding of capital projects in 2006 (2005: $8,200).

Note 13 Investment Income

	2006	2005
Income on investments held for endowments		
Externally restricted	$ 715	$ 314
Internally restricted	76	30
	$ 791	$ 344
Income on other investments	3,204	2,220
Total investment income	$ 3,995	$ 2,564
Amounts allocated (to) from deferred contributions	(235)	246
Income capitalized to endowment principal	(274)	(221)
Total investment income recognized as revenue	$ 3,486	$ 2,589

Note 14 Salaries and Employee Benefits

A Treasury Board Directive under the Financial Administration Act of the Province of Alberta requires the disclosure of certain salary and employee benefit information.

	2006				2005
	Base Salary (1)	Other Cash Benefits (2)	Other Non-Cash Benefits (3)	Total	Total
Chairman of Board (4)	$ -	$ -		$ -	$ -
Board Members (4)	-	-		-	-
President	271	30	81	382	341
Executive/Vice Presidents					
Vice-President (Academic)	235	12	54	301	284
Vice-President (Finance & Administration)	193	-	45	238	221
Dean of Management (5)	229	-	44	273	191
Dean of Graduate Studies	185	-	34	219	202
Administrative leave benefit (6)					
President				63	56
Vice-President (Academic)				55	51
Vice-President (Finance & Administration)				46	43
Dean of Management (5)				47	38
Dean of Graduate Studies				43	39

(1) Salary includes pensionable base pay

(2) Housing allowance

(3) Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, extended health benefits, group life insurance, long term disability plans, professional memberships, supplementary benefit plan and professional supplement allowance.

(4) The Chairman and members of the Board of Governors receive no remuneration for participation on the Board.

(5) Two individuals held the position in the current year. Both held the position for a two-month period during the transition.

(6) Leaves are accrued for senior administrators at a rate of one month for every five months served. If the leave is granted, all salaries and benefits excluding any housing allowances are paid on a monthly basis over the duration of the leave. Cash payments in lieu of administrative leave are not permitted, nor is it possible under Board policy to work for another institution or organization while on leave. Normally, administrative leave is taken immediately after leaving office.

The administrative leave benefit reflects the current service cost of the benefit.

Note 15 Change in Non-Cash Working Capital

	2006	2005
Accounts receivable	$ (475)	$ (1,430)
Inventories	44	65
Prepaid expenses	(71)	(19)
Accounts payable and accrued liabilities	(126)	1,261
Employee benefit liabilities	245	(17)
Deferred revenue	(441)	753
Deferred contributions	(1,687)	(848)
Decrease in non-cash working capital	$ (2,511)	$ (235)

Note 16 Budget

A Treasury Board Directive under the Financial Administration Act requires universities to disclose their annual approved budgets in their financial statements.

	Actual	Budget	Variance
Revenue:			
Grants	$ 77,961	$ 68,687	$ 9,274
Credit course tuition and related fees	35,060	35,820	(760)
Sales of services and products	13,039	14,449	(1,410)
Donations and investment income	4,199	4,201	(2)
	130,259	123,157	7,102
Amortization of deferred capital contributions	6,034	8,305	(2,271)
	136,293	131,462	4,831
Expense:			
Salaries and benefits	87,216	85,985	(1,231)
Materials, supplies, services and other expenses	26,892	30,921	4,029
Amortization of capital assets	12,087	12,385	298
	126,195	129,291	3,096
Excess of revenue over expense	$ 10,098	$ 2,171	$ 7,927

Note 17 Related Party Transactions

The University of Lethbridge is a Provincial Corporation as all members of the Board of Governors are appointed either by statute or by a combination of orders by the Lieutenant Governor in Council and the Minister of Advanced Education. Transactions between the University and the Province of Alberta are disclosed as follows:

	2006			2005
	Unrestricted	Restricted	Total	Total
Advanced Education:				
Operating grants	$ 53,928	$ -	$ 53,928	$ 48,095
Access grants	7,861	-	7,861	7,729
Centennial Tuition Fee Rebate grant	2,426	-	2,426	-
Performance funding	803	-	803	604
Other	69	9,123	9,192	305
Total Advanced Education	65,087	9,123	74,210	56,733
Other provincial ministries, departments and agencies:				
Alberta Infrastructure	-	3,134	3,134	2,273
Alberta Innovation and Science	-	2,239	2,239	431
Alberta Ingenuity	-	1,117	1,117	982
Alberta Heritage Foundation for Medical Research	-	608	608	915
Alberta Gaming	305	28	333	403
Alberta Children's Services	-	142	142	128
Education	90	-	90	-
Other	-	282	282	51
Total other provincial ministries, departments and agencies	395	7,550	7,945	5,183
Total contributions received	65,482	16,673	82,155	61,916
Less: Deferred contributions	-	(7,023)	(7,023)	(1,778)
Revenue from Province of Alberta	$ 65,482	$ 9,650	$ 75,132	$ 60,138

Restricted grants are recognized as revenue in the period in which the related expenses are incurred.

The University of Lethbridge has accounts receivable from the Province of Alberta of $1,714 (2005 - $809) and accounts payable of $0 (2005 - $138).

In 2006 and 2005 the University participated in offering certain courses with other public colleges, universities and institutes. The revenues and expenses incurred for these courses have been included in the statement of operations but have not been separately disclosed.

The University has an arrangement with Athabasca University and University of Calgary to offer a graduate program in Counselling. These transactions were entered into on the same business terms as with non-related parties and are recorded at their fair value amounts. The University's share of revenue and expenses have been recorded using the equity method of accounting (Note 4).

In 2006 the University acquired a 90% interest in the Alberta Terrestrial Imaging Corporation (ATIC), a not-for-profit organization that was created to provide satellite images to be used in research related to greenhouse gases. Transactions between ATIC and the University are recorded at their fair value. The University's share of revenue and expenses are recorded using the equity method of accounting. The University has accounts receivable from the Alberta Terrestrial Imaging Corporation of $208 (2005: $0).

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of dollars)

Note 18 Pledges Receivable

As of March 31, 2006 the estimated realizable value of pledges is $7,370 in support of the following campaigns:

Management & Health Sciences Building	$	3,341
Regional Health & Wellness Centre		2,514
Scholarships		1,246
Other		269
	$	7,370

The pledges are expected to be received over the next several years and have not been recorded as accounts receivable in the financial statements.

Note 19 Scholarships and Bursaries

Included in these financial statements are scholarships totalling $1,566 (2005 - $1,055) that were awarded to 1,293 students (2005 - 1,184) from University of Lethbridge scholarship accounts.

Scholarships and bursaries totalling $2,176 (2005 - $2,284) were awarded to 1,560 (2005 - 1,577) University of Lethbridge students through the Alberta Scholarship Program. These amounts are not included in the financial statements.

Note 20 Commitments and Contingencies

a) The University, in the conduct of its normal activities, is a defendant in a number of legal proceedings. While the ultimate outcome of these proceedings cannot be reasonably estimated at this time, the University believes that any settlement will not have a material adverse effect on the financial position or the results of operations of the University. Administration has concluded that none of the claims meet the criteria for being recorded under GAAP.

b) The University is one of fifty-six members of CURIE, the Canadian Universities Reciprocal Insurance Exchange, a self-insurance reciprocal established to share the insurable property, liability and errors and omissions risks of member universities. The projected cost of claims against the exchange is based on actuarial projections and is funded through members' premiums. As at December 31, 2005 CURIE had a surplus of $11,175 (2004 - $5,995). This surplus is an accumulation of four different underwriting periods. The University participates in three of these underwriting periods, which have an accumulated surplus of $8,372 as of December 31, 2005 (2004 - $3,262). The University held a 1.0% share in CURIE at December 31, 2005.

c) The University has contractual commitments for facilities leased for teaching purposes in Calgary and Edmonton. The lease for facilities in Calgary is negotiated yearly while the Edmonton lease expires on June 30, 2012. Lease costs totalled $290 in fiscal 2006 (2005: $282).

d) In order to manage its exposure to the volatility in the electrical industry, the University has entered into two contracts to fix its electrical cost at an average of $.055 per KWh, one of which expires on December 31, 2010 and the other on May 31, 2016. The total cost of electrical power for the year ending March 31, 2007 is expected to be $1,551. The cost of electricity included in these statements for fiscal 2006 is $1,846 (2005 - $2,148).

Note 20 Commitments and Contingencies (continued)

e) As at March 31, 2006, the University had contractual commitments payable in subsequent years that total $18,179 (2005 - $2,624) related to various capital projects. The most significant of these commitments are for the Regional Health and Wellness Centre ($11,711), expansion of the Canadian Centre for Behavioural Neuroscience ($1,620) and the Alberta Water and Environmental Science building ($1,958). These commitments are not recorded in the financial statements.

f) Under agreements and/or contracts with a number of employee groups, the University provides Professional Supplement funds for activities related to teaching, research, professional development or general University-related duties. At March 31, 2006 approximately $881 (2005 - $827) of such allowances is committed for expenses not yet incurred.

Note 21 Deferred Maintenance

Deferred maintenance on University facilities is estimated at $87,000 based on a facility condition audit completed by the University in January 2005. An allowance for deferred maintenance is not included in these financial statements.

Note 22 Comparative Figures

Certain 2005 figures have been reclassified to conform to 2006 financial statement presentation.

Note 23 Approval of Financial Statements

These financial statements have been approved by the Board of Governors following the recommendation of the Audit Committee.

THE BANFF CENTRE FOR CONTINUING EDUCATION
Financial Statements

For the year ended March 31, 2006

Auditor's Report

Financial Statements:

- Statement of Financial Position
- Statement of Operations and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

Deloitte.

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Auditors' Report

To **The Board of Governors of**
The Banff Centre for Continuing Education:

We have audited the statements of financial position of **The Banff Centre for Continuing Education** as at March 31, 2006 and 2005 and the statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at March 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Calgary, Alberta
May 26, 2006

THE BANFF CENTRE FOR CONTINUING EDUCATION

Statement of Financial Position

As at March 31, 2006

(in thousands of dollars)

	As at March 31, 2006	As at March 31, 2005
Assets		
Current assets		
Cash	$ 1,027	$ 1,471
Short-term investments (Note 6)	1,002	1,023
Accounts receivable (Note 3)	3,294	3,115
Pledges receivable (Note 4)	1,251	457
Inventories	418	422
Prepaid expenses	189	142
	7,181	6,630
Long-term pledges receivable (Note 4)	865	631
Notes receivable and deferred charge (Note 5)	699	499
Long-term investments (Note 6)	8,142	6,996
Capital assets (Note 7)	53,479	50,911
	$ 70,366	$ 65,667
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 2,004	$ 2,534
Accrued vacation pay	1,188	1,147
Unearned revenue and deposits (Note 8)	1,085	1,981
Deferred contributions (Note 9)	3,728	1,918
Long-term debt due within one year (Note 10)	3,147	3,196
	11,152	10,776
Long-term deferred contributions (Note 9)	2,461	2,676
Long-term debt (Note 10)	3	-
Deferred expended capital contributions (Note 11)	36,133	33,888
	49,749	47,340
Net assets		
Operating net assets (Note 12)	12,475	11,331
Endowment (Note 13)	8,142	6,996
	20,617	18,327
	$ 70,366	$ 65,667

The accompanying notes are an integral part of these financial statements.

THE BANFF CENTRE FOR CONTINUING EDUCATION

Statement of Operations and Changes in Net Assets

For the year ended March 31, 2006
(in thousands of dollars)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Revenues		
Accommodation	$ 14,241	$ 14,150
Grants (Note 15)	16,131	14,736
Sales, rentals and services	7,093	6,917
Tuition and related fees	5,464	5,320
Donations and other contributions	3,010	2,846
Investment income	368	43
Amortization of deferred expended capital contributions	1,343	1,520
	47,650	45,532
Expenses		
Salaries, wages and benefits (Note 16)	24,296	23,432
Purchased services	2,876	2,408
Travel and related	1,680	1,529
Scholarships and financial assistance	3,807	3,805
Facility operating	3,332	1,925
Utilities	1,637	1,697
Supplies and materials	4,160	4,190
Vehicles and equipment	1,073	1,176
Marketing and promotion	582	668
Financial costs	564	688
Amortization of capital assets	2,491	2,304
Loss on disposal of capital assets	8	4
	46,506	43,826
Net income	1,144	1,706
Net assets at beginning of year	18,327	16,168
Endowment contributions	967	309
Endowment earnings added to principal	179	144
Net assets at end of year	$ 20,617	$ 18,327

The accompanying notes are an integral part of these financial statements.

THE BANFF CENTRE FOR CONTINUING EDUCATION

Statement of Cash Flows

For the year ended March 31, 2006

(in thousands of dollars)

	Year Ended March 31, 2006	Year Ended March 31, 2005
Cash flows from (used in) operating activities		
Net income	$ 1,144	$ 1,706
Non-cash transactions:		
Amortization of deferred expended capital contributions	(1,343)	(1,520)
Amortization and loss on disposal of capital assets	2,499	2,308
Changes in:		
Non-cash working capital (Note 14)	(1,607)	(225)
Pledges receivable	(1,028)	(553)
Non-capital deferred contributions	2,043	311
Net cash from operating activities	1,708	2,027
Cash flows from (used in) investing activities		
Acquisition of capital assets	(4,754)	(3,125)
Increase in long-term notes receivable	(200)	(5)
Endowment earnings added to principal	179	144
Disposition (acquisition) of short-term investments	21	(800)
Acquisition of long-term investments	(1,146)	(453)
Net cash used in investing activities	(5,900)	(4,239)
Cash flows from (used in) financing activities		
Capital contributions received	3,141	2,409
Principal repayments of long-term debt	(360)	(331)
Endowment contributions	967	309
Net cash from financing activities	3,748	2,387
Increase (decrease) in cash	(444)	175
Cash at beginning of year	1,471	1,296
Cash at end of year	$ 1,027	$ 1,471

The accompanying notes are an integral part of these financial statements.

Note 1 Authority and Purpose

The Banff Centre for Continuing Education (the "Centre") operates under the authority of the Post-Secondary Learning Act, 2003, Chapter P-19.5. The Centre is a registered charity and is exempt from income tax under Section 149 of the Income Tax Act.

The Centre provides public access to a broad range of learning and professional development experiences with emphasis on the arts, leadership development, and the exploration of issues related to mountain culture and the environment.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and the following significant accounting policies and reporting practices:

(a) Revenue Recognition

The Centre follows the deferral method of accounting for contributions.

Operating grants are recognized as revenue in the period when receivable. Operating grants received for a future period are deferred until that future period.

Amounts received for tuition, fees, and sales of goods and services are classified as unearned and recognized as revenue at the time the goods are delivered or the services are provided.

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for the purposes designated by external parties.

Any externally restricted contributions containing stipulations that the amounts and related earnings be retained as net assets or that the contributions not be expended are recorded as direct increases in net assets. Such stipulations would include contributions made for endowment purposes or to acquire non-amortizable property.

Externally restricted capital contributions are recorded as deferred contributions until the amount is invested in capital assets. External funds invested in capital assets are then transferred to deferred expended capital contributions. Deferred expended capital contributions are recognized as revenue in the periods in which the related amortization expense of the funded capital asset is recorded. The related portion of amortization expense and capital contributions revenue are matched to indicate that the related amortization expense has been funded externally.

Unrestricted contributions are recognized as revenue when received.

Donations of materials and services that would otherwise have been purchased are recorded at fair value when a fair value can be reasonably determined.

(b) Scholarships and Financial Assistance

Scholarships and financial assistance include payments to resident artists and program participants for tuition, fees, accommodation and other program related costs.

(c) Inventories

Inventories held for resale are valued at the lower of cost and net realizable value. Inventories held for consumption are valued at the lower of cost and replacement value.

(d) Pledges Receivable

Pledges receivable are recorded as assets when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

(e) Long-term Investments

Long-term investments are recorded at cost. Gains and losses are recognized when investments are sold or when there is a permanent impairment in their value.

(f) Capital Assets

Capital assets are recorded at cost, except donated assets, which are recorded at fair value. Capital assets, except property under development and the artwork collection, are amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Land improvements	20 years
Buildings and improvements	50 years
Furnishings and equipment	10 years
Technical equipment	5 years

The useful lives have been estimated by management and will inevitably differ from actual, perhaps significantly, resulting in amortization expense not matching utilization over the assets' lives. No amortization expense is recorded in the year of acquisition.

Artworks are recorded at cost if purchased or at the appraised value at the time of donation. Artworks are not amortized. The artwork collection is made up of numerous pieces of art that are held for display in the Walter Phillips Gallery and other public areas of the Centre.

(g) Employee Future Benefits

The Centre's pension plans are multi-employer plans and are accounted for using the defined contribution method. Under this method, contributions made during the period are recognized as pension expense and included in salaries, wages and benefits.

(h) Use of Estimates

These financial statements are prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Note 3 Accounts Receivable

	2006	2005
Trade accounts receivable	$ 1,328	$ 1,658
Other amounts due	882	203
Deferred scholarships	1,084	1,254
	$ 3,294	$ 3,115

Note 4 Pledges Receivable

	2006	2005
Pledges receivable	$ 2,116	$ 1,088
Less: current portion	(1,251)	(457)
Long-term pledges receivable	$ 865	$ 631

Pledges receivable includes $688,790 from Canadian Heritage under the Endowment Incentives matching program.

Note 5 Notes Receivable and Deferred Charge

During 2001, the Centre advanced $472,800 to Rocky Mountain Cooperative Housing Association for the right to lease 12 accommodation units. An additional $200,000 was advanced in April 2005 for the right to lease another 30 accommodation units through December 2019. In December 2005, the terms of the notes were modified to discontinue the accrual of interest (interest accrued to that date totals $26,000). The notes are unsecured, repayable in 2019. Commitments under these operating leases totaling $5,060,000 are included in Note 10.

The notes receivable are discounted to a present value of $358,700 using an interest rate of 4.68% which approximates the external borrowing rate of the Cooperative. The resulting deferred charge of $314,100 is amortized over the lease period.

Note 6 Investments

Short-term

Short-term investments include money market funds, Treasury Bill funds and Guaranteed Investment Certificates, the market value of which approximates the carrying value reflected on the financial statements.

Long-term

	2006		2005	
	Cost	Market Value	Cost	Market Value
Cash & cash equivalents	$ 273	$ 273	$ 378	$ 378
Government debt	1,615	1,619	2,237	2,266
Corporate debt	1,850	1,853	1,140	1,162
Equities	4,886	6,108	3,410	4,008
	8,624	$ 9,853	7,165	$ 7,814
Endowment distributable earnings	(482)		(169)	
	$ 8,142		$ 6,996	

Note 7 Capital Assets

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land improvements	$ 2,723	$ 2,169	$ 554	$ 2,703	$ 2,111	$ 592
Buildings and improvements	74,109	31,183	42,926	73,930	29,719	44,211
Furnishings and equipment	23,224	18,412	4,812	22,321	17,740	4,581
Equipment under capital lease	315	32	283	28	6	22
Artwork collection	1,164	-	1,164	1,164	-	1,164
Property under development	3,740	-	3,740	341	-	341
	$ 105,275	$ 51,796	$ 53,479	$ 100,487	$ 49,576	$ 50,911

Land is leased from the Government of Canada. The current lease expires on July 31, 2043, and is renewable.

Note 8 Unearned Revenue and Deposits

	2006	2005
Accommodation deposits	$ 549	$ 1,346
Other sales and services	536	635
	$ 1,085	$ 1,981

Note 9 Deferred Contributions

	2006	2005
Deferred contributions at beginning of year	$ 4,594	$ 3,546
Contributions received:		
Capital	3,141	2,409
Operating and other	4,258	2,272
Endowment distributable earnings	482	169
Transferred to operations:		
Grants	(2,216)	(1,772)
Donations and other contributions	(181)	(319)
Endowment earnings utilized	(299)	(40)
Transferred to deferred expended capital contributions (Note 11)	(3,590)	(1,671)
Deferred contributions at end of year	$ 6,189	$ 4,594

	2006	2005
Deferred contributions are comprised of:		
Capital	$ 1,597	$ 2,045
Non-capital	4,592	2,549
	6,189	4,594
Less: current portion	(3,728)	(1,918)
Long-term portion of deferred contributions	$ 2,461	$ 2,676

Note 10 Long-Term Debt and Commitments

	2006	2005
Term loan - Professional Development Centre	$ 2,912	$ 3,188
Capital leases	238	8
	3,150	3,196
Less: debt due within one year	(3,147)	(3,196)
Long-term debt	$ 3	$ -

Future expected minimum repayments are as follows:

Year Ending March 31	Professional Development Centre	Capital Leases Principal	Capital Leases Interest	Operating Leases
2007	$ 275	$ 235	$ 10	$ 1,195
2008	2,637	2		1,058
2009	-	1		892
2010	-	-	-	713
thereafter	-	-	-	5,632
	$ 2,912	$ 238	$ 10	$ 9,490

The term loan is unsecured with fixed-rate principal repayments of $275,000 per annum until the renewal date on December 17, 2007, at an interest rate of 4.09%. Under certain circumstances, the lender has the right to demand immediate repayment. Accordingly, all amounts outstanding under this loan have been classified as a current liability.

Interest expense on long-term debt for the years ended March 31, 2006 and 2005 was $133,343 and $142,500, respectively. Interest expense approximates interest paid for both fiscal years.

Capital leases are primarily for equipment supporting Voice Over Internet Protocol (VOIP).

In July 2004, the Centre entered into a long-term supply arrangement with an electrical utility company for its electrical power needs for the period January 1, 2006 to January 1, 2011, at a rate of $.0469/kwh.

In April 2005, the Centre advanced $200,000 to Rocky Mountain Cooperative Housing Association. In exchange for this advance, the Centre acquired the right to lease 30 additional accommodation units through December 2019.

During 2006 the Centre began construction of new facilities as part of a phased redevelopment project expected to be completed in 2009. The Centre has entered into contracts totaling $16.3 million to construct and equip a new dining facility. Planning is also underway to construct the Donald Cameron Centre and a new Learning building. Funding for these projects is expected to include $23.0 million from Alberta Advanced Education ($11 million has been received through June 2006) and other public and private donations to be raised during the Centre's capital campaign.

Note 11 Deferred Expended Capital Contributions

	2006	2005
Balance at beginning of year	$ 33,888	$ 33,748
Transferred from deferred contributions to acquire capital assets (Note 9)	3,590	1,671
Reduction upon retirement of capital assets	(2)	(11)
Transferred to revenue	(1,343)	(1,520)
Balance at end of year	$ 36,133	$ 33,888

Note 12 Operating Net Assets

	Unrestricted	Investment in Capital Assets	2006	2005
Balance at beginning of year	$ (2,490)	$ 13,821	$ 11,331	$ 9,625
Net income	1,144	-	1,144	1,706
Internally funded:				
Capital acquisitions	(1,162)	1,162	-	-
Amortization and loss on disposal of capital assets	1,156	(1,156)	-	-
Repayment of long-term debt	(360)	360	-	-
Balance at end of year	$ (1,712)	$ 14,187	$ 12,475	$ 11,331

Note 13 Endowment

	2006	2005
Endowment book value at beginning of year	$ 6,996	$ 6,543
Contributions	967	309
Realized earnings	661	313
Distribution of earnings available for spending	(482)	(169)
Endowment book value at end of year	$ 8,142	$ 6,996

In November 2005 the Centre transferred $924,551 of endowment contributions to the Banff Community Foundation in accordance with the terms of an application for matching funds from Canadian Heritage under the Endowment Incentives program. These contributions and any matching funds will be held by the Foundation and administered as a permanent endowment for the sole benefit of the Centre. The Foundation is a public charitable foundation which is not controlled by the Centre.

Note 14 Changes in Non-Cash Working Capital

	2006	2005
Changes in:		
Accounts receivable	$ (179)	$ (1,430)
Inventories	4	4
Prepaid expenses	(47)	73
Accounts payable	(530)	522
Accrued vacation pay	41	63
Unearned revenue and deposits	(896)	543
	$ (1,607)	$ (225)

Note 15 Grants

	2006	2005
Base operating grant: Alberta Advanced Education	$ 12,118	$ 11,368
Other grants:		
Province of Alberta		
Advanced Education	1,447	11
Innovation and Science	241	50
Community Development and Other	110	110
Government of Canada - Canadian Heritage		
National Arts Training Contribution Program	1,340	1,580
Canadian Culture On-Line Program	50	444
Arts Presentation Canada Program	100	100
Museum Assistance Program	7	84
Urban Multipurpose Aboriginal Youth Centre Initiative	20	15
Book Publishing Industry Development Program	10	10
Other Government of Canada	688	964
	4,013	3,368
	$ 16,131	$ 14,736

Note 16 Salaries, Wages and Benefits

	2006	2005
Pension contributions	$ 1,105	$ 1,015
Salaries, wages and non-pension benefits	23,191	22,417
	$ 24,296	$ 23,432

Note 17 Salary Disclosure

The salaries and benefits of senior management are as follows:

	2006			2005
	Salaries (1)	Non-Cash Benefits (2)	Total	Total
Board of Governors (3)	$ -	$ -	$ -	$ -
President	235	33	268	248
Vice-Presidents				
Programming (4)	105	22	127	146
Finance	167	23	190	180
Hospitality & Conferences	144	18	162	157
Mountain Culture	123	16	139	122
	$ 774	$ 112	$ 886	$ 853

(1) salaries include regular base pay and other direct cash remuneration

(2) non-cash benefits include the Centre's share of all employee benefits and payments made on behalf of employees including pension, health care, insurance and disability plans, tuition benefits, memberships, and taxable benefits for the use of Banff Centre residences and vehicles

(3) the Chair and members of the Board of Governors receive no remuneration for their services

(4) reflects a part-year appointment in fiscal year 2005-06

Note 18 Financial Instruments

Financial instruments are comprised of cash, short-term investments, accounts receivable, notes receivable, pledges receivable, accounts payable, accrued vacation pay, and long-term debt including obligations under capital leases. The carrying amounts of cash, short-term investments, accounts receivable and accounts payable approximate fair value due to their short-term maturity. The carrying values of the notes receivable also approximate fair value. In management's opinion the debt obligations subject to fixed rates of interest do not differ significantly from their carrying values, as the Centre would only be able to refinance these obligations under similar terms and conditions as currently exist.

Credit risk - The Centre's accounts receivable and pledges receivable are subject to credit risk due to the nature of the Centre's customers and donors. The carrying value of accounts receivable and pledges receivable reflects management's assessment of the credit risk associated with these customers and donors.

Note 19 Budget

The following represents The Banff Centre's operating budget for the fiscal year ended March 31, 2006.

Revenues		
Accommodation	$	13,803
Grants		14,869
Sales, rentals and services		6,513
Tuition and related fees		5,219
Donations and other contributions		3,039
Investment income		316
Amortization of deferred expended capital contributions		1,435
		45,194
Expenses		
Salaries, wages and benefits		24,266
Purchased services		2,690
Travel and related		1,767
Scholarships and financial assistance		4,016
Facility operating		2,006
Utilities		1,900
Supplies and materials		3,965
Vehicles and equipment		1,116
Marketing and promotion		604
Financial costs		757
Interfund transfers		(128)
Amortization of capital assets		2,235
Loss on disposal of capital assets		-
		45,194
Net income	$	-

Note 20 Prior Year Figures

Certain prior year figures have been reclassified to conform to the current year presentation.